# ENSCO PLC

## FORM 10-K
(Annual Report)

Filed 02/21/97 for the Period Ending 12/31/96

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|---|---|
| Telephone | 4402076594660 |
| CIK | 0000314808 |
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| SIC Code | 1381 - Drilling Oil and Gas Wells |
| Industry | Oil Well Services & Equipment |
| Sector | Energy |
| Fiscal Year | 12/31 |

# ENSCO INTERNATIONAL INC

FORM 10-K
(Annual Report)

Filed 2/21/1997 For Period Ending 12/31/1996

| | |
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| Industry | Oil Well Services & Equipment |
| Sector | Energy |
| Fiscal Year | 12/31 |

# SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

**1996 FORM 10-K**
(Mark One)

**[ X ] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996**
OR
**[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from . . . . . . . . . . to . . . . . . . . . .

*Commission File Number 1-8097*

# ENSCO International Incorporated
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE | 76-0232579 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

2700 Fountain Place
1445 Ross Avenue
Dallas, Texas 75202-2792
(Address of principal executive offices)

Registrant's telephone number, including area code: (214) 922-1500

**Securities registered pursuant to Section 12(b) of the Act:**

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|---|
| Common Stock, par value $.10 | New York Stock Exchange |
| Preferred Share Purchase Right | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act:**
None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [ X ] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

As of January 31, 1997, 70,863,520 shares of the registrant's common stock were outstanding. The aggregate market value of the common stock (based upon the closing price on the New York Stock Exchange on January 31, 1997 of $55.125) of ENSCO International Incorporated held by nonaffiliates of the registrant at that date was approximately $2,670,094,035.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain sections of the Company's definitive proxy statement, which involves the election of directors and is to be filed under the Securities Exchange Act of 1934 within 120 days of the end of the Company's fiscal year on December 31, 1996, are incorporated by reference into Part III hereof. Except for those portions specifically incorporated by reference herein, such document shall not be deemed to be filed with the Commission as part of this Form 10-K.

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# PART I

## ITEM 1. BUSINESS

### OVERVIEW AND OPERATING STRATEGY

ENSCO International Incorporated ("ENSCO" or the "Company") is an international offshore contract drilling company that also provides marine transportation services in the Gulf of Mexico. The Company's complement of offshore drilling rigs includes 35 jackup rigs, 10 barge drilling rigs and eight platform rigs. The Company's marine transportation fleet consists of 37 vessels. The Company's operations are integral to the exploration, development and production of oil and gas.

Since 1987, the Company has pursued a strategy of building its fleet of offshore drilling rigs. This strategy was exemplified by the Company's acquisition of the remainder of Penrod Holding Corporation ("Penrod") in August 1993, the construction of eight new barge drilling rigs for the Company's Venezuelan rig fleet during 1993 and 1994 and the addition of three harsh environment jackup rigs to its North Sea fleet, two in 1994 and one in 1995. In June 1996, the Company acquired DUAL DRILLING COMPANY ("Dual") in a transaction which added 20 rigs to the Company's fleet. The Company subsequently purchased another jackup rig in November 1996.

With the Company's increasing emphasis on offshore markets, the Company has disposed of businesses that are not offshore oriented or that management believed would not meet the Company's standards for financial performance. Accordingly, in 1993 the Company's supply business was sold, in 1994 the Company sold substantially all of its land rigs and in 1995 the Company sold its technical services business.

The Company was formed as a Texas corporation in 1975 and was reincorporated in Delaware in 1987. The Company's principal office is located at 2700 Fountain Place, 1445 Ross Avenue, Dallas, Texas, 75202-2792 and its telephone number is (214) 922-1500.

### ACQUISITION OF DUAL DRILLING

On June 12, 1996, the Company acquired Dual pursuant to an Agreement and Plan of Merger among the Company, a wholly owned subsidiary and Dual. The acquisition was approved on that date by Dual stockholders who received 0.625 shares of the Company's common stock for each share of Dual common stock. The Company issued approximately 10.1 million shares of its common stock to Dual stockholders in connection with the acquisition, resulting in an acquisition price of approximately $218.4 million.

The acquired Dual operations consisted of a fleet of 20 offshore drilling rigs, including 10 jackup rigs and 10 platform rigs. Subsequent to the date of acquisition, two platform rigs located off the coast of California were retired.

The Company accounted for the Dual acquisition as a purchase. The purchase price allocation has been based on preliminary estimates of fair value and is subject to adjustment as additional information becomes available and is evaluated.

## CONTRACT DRILLING OPERATIONS

The Company's contract drilling operations are conducted by a number of wholly owned subsidiaries ("the Subsidiaries"). The Subsidiaries engage in the drilling of oil and gas wells in domestic and international markets under contracts with major international oil and gas companies, government owned oil and gas companies and independent oil and gas companies. The Company currently owns 35 jackup rigs, 10 barge drilling rigs and seven platform rigs. Of the 35 jackup rigs, 23 are located in the Gulf of Mexico, six are located in the North Sea and six are located in Asia. The 10 barge drilling rigs are all located in Venezuela and the seven platform rigs are all located in the Gulf of Mexico. An additional platform rig, which is not owned but is operated under a management contract, is located off the coast of China. The Company's Venezuela contract drilling operations are conducted through its 85% ownership interest in ENSCO Drilling (Caribbean), Inc. ("Caribbean").

The Company's contract drilling services and equipment are used in connection with the process of drilling and completing oil and gas wells. Demand for the Company's drilling services is based upon many factors over which the Company has no control, including the market price of oil and gas, the stability of such prices, the production levels and other activities of OPEC and other oil and gas producers, the regional supply and demand for natural gas, the worldwide expenditures for oil and gas drilling, the level of worldwide economic activity and the long-term effect of worldwide energy conservation measures.

The drilling services provided by the Company are conducted on a contract basis. The Company generally provides drilling services on a "daywork" basis. Under daywork contracts, the Company receives a fixed amount per day for drilling the well and the customer bears a major portion of the out-of-pocket costs of drilling. The customer may pay the cost of moving the equipment to the job site and assembling and dismantling the equipment. In some cases, the Company provides drilling services on a daywork contract basis along with "well management" services which provide additional incentive compensation to the Company for completion of drilling activity ahead of budgeted targets set by the customer.

During the past several years, contracts have typically been short-term, particularly in the U.S. However, due to extension clauses included in the contracts, approximately 67% of the Company's rigs have worked for the same customer for greater than six months and over 48% of the Company's rigs have worked for the same customer for longer than one year. The backlog of business for the Subsidiaries, excluding operations conducted through Caribbean, at February 1, 1997 was approximately $220.5 million as compared to approximately $59.8 million in February 1996. Caribbean has a number of term contracts which terminate in 1998 and 1999, with a backlog as of February 1, 1997 of approximately $140.6 million as compared to approximately $162.9 million in February 1996.

## MARINE TRANSPORTATION OPERATIONS

The Company conducts its marine transportation operations through a wholly owned subsidiary, ENSCO Marine Company ("ENSCO Marine"), based in Broussard, Louisiana. The Company has a marine transportation fleet of 37 vessels consisting of six anchor handling tug supply ("AHTS") vessels, 23 supply vessels and eight mini-supply vessels. All of the Company's marine transportation vessels are currently located in the Gulf of Mexico.

The Company's six AHTS vessels ordinarily support semi-submersible drilling rigs and large offshore construction projects or provide towing services. The 23 supply vessels and eight mini-supply vessels support general drilling and production activity by ferrying supplies from land and between offshore rigs. All of the Company's marine transportation vessels have drilling fluid handling capabilities which management believes enhance their marketability. The Company's vessels are typically chartered on a well-to-well basis, or on term contracts which may be terminated on short notice. At February 1, 1997, ENSCO Marine had a backlog of contracts for its services of approximately $32.3 million compared to $10.5 million for such services in February 1996.

## SEGMENT INFORMATION

The following table provides operational information regarding the Company's contract drilling and marine transportation operations for each of the five years ended December 31, 1996:

| | 1996<F1> | 1995 | 1994 | 1993<F2> | 1 |
|---|---|---|---|---|---|
| **Offshore Drilling Rig Utilization and Day Rates** | | | | | |
| Utilization: | | | | | |
| Jackup rigs | | | | | |
| North America | 93% | 90% | 91% | 97% | |
| Europe | 88% | 73% | 71% | 58% | |
| Asia | 86% | -- | 29% | 10% | |
| South America | -- | -- | 62% | 100% | |
| Total jackup rigs | 92% | 87% | 83% | 84% | |
| Barge drilling rigs - South America | 91% | 86% | 100% | 100% | |
| Platform rigs | 78% | -- | -- | -- | |
| Total | 90% | 86% | 87% | 87% | |
| Average day rates: | | | | | |
| Jackup rigs | | | | | |
| North America | $27,793 | $20,559 | $21,531 | $20,035 | |
| Europe | 47,714 | 42,631 | 24,528 | 27,014 | |
| Asia | 26,751 | -- | 27,739 | 20,424 | |
| South America | -- | -- | 24,629 | 24,125 | |
| Total jackup rigs | 31,505 | 24,813 | 22,269 | 21,572 | |
| Barge drilling rigs - South America | 22,608 | 19,631 | 16,413 | 15,432 | |
| Platform rigs | 16,913 | -- | -- | -- | |
| Total | $28,238 | $23,196 | $20,539 | $20,281 | |
| **Marine Fleet Utilization and Day Rates <F3>** | | | | | |
| Utilization: | | | | | |
| AHTS <F4> | 79% | 84% | 81% | 76% | |
| Supply | 92% | 84% | 86% | 84% | |
| Mini-supply | 87% | 65% | 93% | 95% | |
| Total | 89% | 79% | 86% | 84% | |
| Average day rates: | | | | | |
| AHTS <F4> | $ 9,321 | $ 7,732 | $ 7,686 | $ 6,987 | |
| Supply | 4,729 | 3,136 | 3,173 | 3,039 | |
| Mini-supply | 2,972 | 1,985 | 1,663 | 1,677 | |
| Total | $ 5,016 | $ 3,753 | $ 3,826 | $ 3,559 | |

<F1> Offshore Drilling Rig information includes the results of Dual rigs from the June 12, 1996 acquisition date and Platform rig information in 1996 results from the Dual acquisition.
<F2> Offshore Drilling Rig and Marine Fleet information includes Penrod rigs and vessels acquired in 1993.
<F3> Excludes utility vessels. As of December 31, 1994, the Company no longer had utility vessels available for wor
<F4> Anchor handling tug supply vessels.
/TABLE

Financial information regarding the Company's operating segments and foreign and domestic operations is presented in Note 10 of the Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data." Additional financial information regarding the Company's operating segments is presented in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

### MAJOR CUSTOMERS

The Company provides its services to a broad customer base which includes major international oil and gas companies, government owned oil and gas companies and independent oil and gas companies.

During 1996, aggregate revenues provided to the Company's contract drilling operations by Lagoven S.A. ("Lagoven"), a subsidiary of Venezuela's national oil company, were $75.5 million, or 16% of total revenues. Additionally, revenues of $63.7 million, or 14% of total revenues, all of which were from contract drilling operations, were provided to the Company by Nederlandse Aardolie Maatschappij B.V., a Royal Dutch/Shell affiliate.

### INDUSTRY CONDITIONS AND COMPETITION

After several years of depressed market conditions resulting from the supply of offshore rigs exceeding demand, uncertainty over low oil and gas prices and reductions in expenditures by oil and gas companies, the offshore contract drilling market has shown distinct improvement over the last two years, but most significantly in 1996. Worldwide drilling activity in 1996 continued to demonstrate a sustained recovery as supply and demand in the offshore drilling market reached near equilibrium, a level not attained since the early 1980's. The increase in drilling activity pushed day rates to levels not experienced since the early 1980's as well. These increases are primarily driven by the strengthening of oil and natural gas prices and new technologies which are making exploration and production more cost effective for the Company's customers. With expected capital expenditure increases for major and independent oil companies in 1997, the Company anticipates that the offshore drilling market will remain strong unless there is a significant deterioration in oil and natural gas prices.

The contract drilling business is highly competitive and ENSCO competes with other drilling contractors on the basis of quality of service, price, equipment suitability and availability, reputation and technical expertise. Competition is usually on a regional basis, but drilling rigs are mobile and may be moved from one region to another in response to demand. Drilling operations are generally conducted throughout the year with some seasonal declines in winter months.

As the Company's marine transportation services are used primarily in connection with the process of servicing offshore oil and gas operations, demand for these services is largely dependent on the factors affecting the level of activity in the offshore oil and gas industry. ENSCO Marine competes with numerous vessel operators on the basis of quality of service, price, vessel suitability and availability and reputation. Marine transportation operations are conducted throughout the year, but some reductions in vessel utilization and charter rates may be experienced during winter months due to seasonal declines in offshore activities.

Additional information regarding industry conditions and industry utilization rates is presented in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

## GOVERNMENTAL REGULATION

The Company's businesses are affected by political developments and by federal, state, foreign and local laws and regulations that relate directly to the oil and gas industry. The industry is also affected by changing tax laws, price controls and other laws affecting the energy business. The adoption of laws and regulations curtailing exploration and development drilling for oil and gas for economic, environmental or other policy reasons adversely affects the Company's operations by limiting available drilling and other opportunities in the energy service industry, as well as increasing the costs of operations.

The Company and its rigs and operations are subject to federal, state, local and foreign laws and regulations relating to engineering, design, structural, safety and operational and inspection standards.

Most of the Company's marine transportation operations are conducted in U.S. waters and are subject to the coastwise laws of the United States, principally, the Jones Act. Such laws reserve marine transportation between points in the United States to vessels built and documented under U.S. laws and owned and manned by U.S. citizens. Certain interests opposed to the Jones Act have announced an intention to seek changes to the Jones Act. Although the Company believes it is unlikely that the Jones Act will be substantively modified or repealed, there can be no assurance that the Jones Act may not be modified or repealed. Such changes in the Jones Act could have a material adverse effect on the Company's operations and financial condition.

## ENVIRONMENTAL MATTERS

The Company's operations are subject to federal, state and local laws and regulations controlling the discharge of materials into the environment or otherwise relating to the protection of the environment. Laws and regulations specifically applicable to the Company's business activities could impose significant liability on the Company for damages, clean-up costs and penalties in the event of the occurrence of oil spills or similar discharges of pollutants into the environment in the course of the Company's operations, although, to date, such laws and regulations have not had a material adverse effect on the Company's results of operations, nor has the Company experienced an accident that has exposed it to material liability for discharges of pollutants into the environment. In addition, events in recent years have heightened environmental concerns about the oil and gas industry generally. From time to time, legislative proposals have been introduced which would materially limit or prohibit offshore drilling in certain areas. To date, no proposals which would materially limit or prohibit offshore drilling in the Company's principal areas of operation have been enacted into law. If laws are enacted or other governmental action is taken that restrict or prohibit offshore drilling in the Company's areas of operation or impose environmental protection requirements that materially increase the cost of offshore exploration, development or production of oil and gas, the Company could be materially adversely affected.

The United States Oil Pollution Act of 1990 ("OPA '90") and similar legislation in Texas, Louisiana and other coastal states address oil spill prevention and control and significantly expand liability exposure across all segments of the oil and gas industry. OPA '90, such similar legislation and related regulations impose a variety of obligations on the Company related to the prevention of oil spills and liability for resulting damages. OPA '90 imposes strict and, with limited exceptions, joint and several liability upon each responsible party for oil removal costs and a variety of damages. OPA '90 imposes ongoing financial responsibility requirements. A failure to comply with OPA '90 may subject a responsible party to civic or criminal enforcement action. The U.S. Minerals Management Service is required to promulgate regulations to implement the financial responsibility requirements which could increase the cost of doing business in U.S. waters and adversely affect the ability of some of the Company's customers to operate in U.S. waters.

## OPERATIONAL RISKS AND INSURANCE

Contract drilling and oil and gas operations are subject to various risks including blowouts, craterings, fires and explosions, each of which could result in damage to or destruction of drilling rigs and oil and gas wells, personal injury and property damage, suspension of operations or environmental damage through oil spillage or extensive, uncontrolled fires. The Company's marine transportation operations are subject to various risks, which include property and environmental damage and personal injury. The Company generally insures its drilling rigs and marine transportation vessels for amounts not less than the estimated fair market value thereof. The Company also maintains liability insurance coverage in amounts and scope which management believes are comparable to the levels of coverage carried by other energy service companies. To date, the Company has not experienced difficulty in obtaining insurance coverage. While the Company believes its insurance coverages are customary for the energy service industry, the occurrence of a significant event not fully insured against could have a material adverse effect on the Company's financial position. Also, there can be no assurance that any particular insurance claim will be paid or that the Company will be able to procure adequate insurance coverage at commercially reasonable rates in the future.

## INTERNATIONAL OPERATIONS

A significant portion of the Company's contract drilling operations are conducted in foreign countries. Revenues from international operations were 41% of the Company's total revenues in 1996. The Company's international operations are subject to political, economic, and other uncertainties, such as the risks of expropriation of its equipment, expropriation of a customer's property or drilling rights, repudiation of contracts, adverse tax policies, general hazards associated with international sovereignty over certain areas in which the Company operates and fluctuations in international economies.

The Company's international operations also face the risk of fluctuating currency values and exchange controls. Occasionally the countries in which the Company operates have enacted exchange controls. Historically, the Company has been able to limit these risks by obtaining compensation in United States dollars or freely convertible international currency and, to the extent possible, by limiting acceptance of blocked currency to amounts which match its expenditure requirements in local currencies.

The Venezuelan currency experienced significant devaluation during the first half of 1994. In June 1994, the Venezuelan government established exchange control policies and severely restricted the conversion of Venezuelan currency to U.S. dollars. In late 1995, the Venezuelan government further devalued the Venezuelan currency against the U.S. dollar. In April 1996, the Venezuelan government removed the exchange control policies previously established and allowed the Venezuelan currency to become freely traded. The Venezuelan currency has remained relatively stable subsequent to that change. To date, the Company has not experienced problems associated with receiving U.S. dollar payments with respect to the U.S. dollar portion of its contracts with Lagoven. Changes in these conditions, other policy enactments, or political developments in Venezuela could have an adverse effect upon the Company. However, the Company believes such adverse effects are not probable due to the volume of U.S. dollars paid to the parent company of Lagoven for its oil exports.

## EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information regarding the executive officers of the Company:

| NAME | AGE | POSITION WITH THE COMPANY |
|---|---|---|
| Carl F. Thorne | 56 | Chairman of the Board, President, Chief Executive Officer and Director |
| Richard A. Wilson | 59 | Senior Vice President, Chief Operating Officer and Director |
| Marshall Ballard | 54 | Vice President - Business Development and Quality |
| William S. Chadwick, Jr. | 49 | Vice President - Administration and Secretary |
| C. Christopher Gaut | 40 | Vice President - Finance and Chief Financial Officer |
| H. E. Malone | 53 | Vice President - Controller and Chief Accounting Officer |
| Frank B. Williford | 57 | Vice President - Engineering |
| Richard A. LeBlanc | 46 | Treasurer |

Set forth below is certain additional information concerning the executive officers of the Company, including the business experience of each during the past five years.

Carl F. Thorne has been a director of the Company since December 1986. He was elected President and Chief Executive Officer of the Company in May 1987 and was elected Chairman of the Board of Directors in November 1987. Mr. Thorne holds a Bachelor of Science Degree in Petroleum Engineering from the University of Texas and a Juris Doctorate Degree from Baylor University College of Law.

Richard A. Wilson has been a director of the Company since June 1990. Mr. Wilson joined the Company in July 1988 and was elected President of ENSCO Drilling Company in August 1988. Mr. Wilson was elected Senior Vice President - Operations of the Company in October 1989 and to his present position in June 1991. Mr. Wilson holds a Bachelor of Science Degree in Petroleum Engineering from the University of Wyoming.

Marshall Ballard joined the Company in connection with the acquisition of Penrod Holding Corporation and was elected Vice President of Business Development and Quality in August 1993. From September 1977 through August 1993, Mr. Ballard served in various capacities as an employee of Penrod Holding Corporation, most recently as President. Mr. Ballard holds a Bachelor of Arts Degree in History from the University of North Carolina and a Law Degree from Tulane University.

William S. Chadwick, Jr. joined the Company as Director of Administration in June 1987, has been a Vice President of the Company since July 1988 and was elected Secretary of the Company in May 1993. Mr. Chadwick holds a Bachelor of Science Degree in Industrial Management from the University of Pennsylvania.

C. Christopher Gaut joined the Company in December 1987 and was elected Treasurer and Chief Financial Officer in February 1988 and Vice President - Finance in January 1991. Mr. Gaut holds a Bachelor of Arts Degree in Engineering Science from Dartmouth College and a Master of Business Administration Degree in Finance from The Wharton School of the University of Pennsylvania.

H. E. Malone joined the Company in August 1987 and was elected Controller and Chief Accounting Officer in January 1988 and Vice President - Controller and Chief Accounting Officer in February 1995. Mr. Malone holds Bachelor of Business Administration Degrees from the University of Texas and Southern Methodist University and a Master of Business Administration Degree from the University of North Texas.

Frank B. Williford joined the Company and was elected Vice President - Engineering in February 1996. From January 1966 through January 1996, Mr. Williford served in various capacities as an employee of Sedco, Inc. and Sedco Forex, previously as Vice President and General Manager of Engineering. Mr. Williford holds a Bachelor of Science Degree in Structural Engineering from Texas A&M University.

Richard A. LeBlanc joined the Company in July 1989 as Manager of Finance. He assumed responsibilities for the investor relations function in March 1993 and was promoted to Treasurer and Director of Investor Relations in May 1995. Mr. LeBlanc holds a Bachelor of Science Degree in Finance and a Master of Business Administration degree from Louisiana State University.

Officers each serve for a one-year term or until their successors are elected and qualified to serve. Mr. Thorne and Mr. Malone are brothers-in-

EMPLOYEES

The Company had approximately 3,800 full-time employees worldwide as of February 1, 1997. In addition, the Company employs local personnel in foreign countries to work on rigs on a job-by-job basis. The Company considers relations with its employees to be satisfactory. None of the Company's domestic employees are represented by unions. The Company has not experienced any significant work stoppages or strikes as a result of labor disputes.

ITEM 2. PROPERTIES

CONTRACT DRILLING

The following table sets forth, as of February 1, 1997, certain information regarding the offshore drilling rigs owned by the Company:

JACKUP RIGS

| RIG NUMBER | YEAR BUILT/ REBUILT | RIG TYPE | NOTES | WATER DEPTH/ RATED DEPTH |
|---|---|---|---|---|
| North America | | | | |
| ENSCO 51 | 1982 | FG-780II-C | 2 | 300'/25,000' |
| ENSCO 54 | 1982 | FG-780II-C | 2 | 300'/25,000' |
| ENSCO 55 | 1981 | FG-780II-C | 2 | 300'/25,000' |
| ENSCO 60 | 1981 | Lev-111-C | 2 | 300'/25,000' |
| ENSCO 64 | 1974 | MLT 53-S | 1,2*,3 | 250'/30,000' |
| ENSCO 67 | 1976/1996 | MLT 84-S | 1,2 | 400'/30,000' |
| ENSCO 68 | 1976 | MLT 84-S | | 350'/30,000' |
| ENSCO 69 | 1976/1995 | MLT 84-S | 1,2 | 400'/25,000' |
| ENSCO 81 | 1979 | MLT 116-C | 1,2 | 350'/25,000' |
| ENSCO 82 | 1979 | MLT 116-C | 1,2,3 | 300'/25,000' |
| ENSCO 83 | 1979 | MLT 82 SD-C | 2 | 250'/25,000' |
| ENSCO 84 | 1981 | MLT 82 SD-C | 2 | 250'/25,000' |
| ENSCO 86 | 1981 | MLT 82 SD-C | 1,2 | 250'/30,000' |
| ENSCO 87 | 1982 | MLT 116-C | 1,2 | 350'/25,000' |
| ENSCO 88 | 1982 | MLT 82 SD-C | 1,2 | 250'/25,000' |
| ENSCO 89 | 1982 | MLT 82 SD-C | 1,2 | 250'/25,000' |
| ENSCO 90 | 1982 | MLT 82 SD-C | 1,2 | 250'/25,000' |
| ENSCO 93 | 1982 | MLT 82 SD-C | 2 | 250'/25,000' |
| ENSCO 94 | 1981 | Hitachi-250C | 1,2 | 250'/25,000' |
| ENSCO 95 | 1981 | Hitachi-250C | 2 | 250'/25,000' |
| ENSCO 98 | 1977 | MLT 82 SD-C | 2 | 250'/25,000' |
| ENSCO 99 | 1985 | MLT 82 SD-C | 1,2 | 250'/30,000' |
| Europe | | | | |
| ENSCO 70 | 1981/1996 | Hitachi-300C NS | 1,2,3,4 | 250'/30,000' |
| ENSCO 71 | 1982/1995 | Hitachi-300C NS | 1,2,3 | 225'/25,000' |
| ENSCO 72 | 1981/1996 | Hitachi-300C NS | 1,2,3 | 225'/25,000' |
| ENSCO 80 | 1978/1995 | MLT 116-CE | 1,2,3 | 225'/30,000' |
| ENSCO 85 | 1981/1995 | MLT 116-C | 1,2,3 | 225'/25,000' |
| ENSCO 92 | 1982/1996 | MLT 116-C | 1,2,3 | 225'/25,000' |
| Asia | | | | |
| ENSCO 50 | 1983 | FG-780II-C | | 300'/25,000' |
| ENSCO 52 | 1983 | FG-780II-C | 2 | 300'/25,000' |
| ENSCO 53 | 1982 | FG-780II-C | | 300'/30,000' |
| ENSCO 56 | 1983 | FG-780II-C | 2 | 300'/25,000' |
| ENSCO 57 | 1982 | FG-780II-C | 2 | 300'/25,000' |
| ENSCO 96 | 1982 | Hitachi-250C | 2 | 250'/25,000' |
| ENSCO 97 | 1980 | MLT 82 SD-C | 2,5 | 250'/20,000' |

_______________________

Notes:

1) Zero discharge capabilities permitting operation in environmentally sensitive areas.
2) Top drive (or 2* side drive).
3) 350 ft. water depth capability with the addition of leg sections.
4) 15,000 psi blowout preventor for high pressure drilling capability.
5) In transit from North America to Asia.

BARGE DRILLING RIGS

| RIG NUMBER | YEAR BUILT/ REBUILT | RATED DEPTH | LOCATION |
|---|---|---|---|
| ENSCO V | 1982/1996 | 15,000' | Venezuela |
| ENSCO VI | 1991/1996 | 15,000' | Venezuela |
| ENSCO VII | 1993 | 20,000' | Venezuela |
| ENSCO VIII | 1993 | 20,000' | Venezuela |
| ENSCO IX | 1993 | 20,000' | Venezuela |
| ENSCO X | 1993 | 20,000' | Venezuela |
| ENSCO XI | 1994 | 25,000' | Venezuela |
| ENSCO XII | 1994 | 25,000' | Venezuela |
| ENSCO XIV | 1994 | 25,000' | Venezuela |
| ENSCO XV | 1994 | 25,000' | Venezuela |

PLATFORM RIGS

| RIG NUMBER | YEAR BUILT/ REBUILT | NOTES | RATED DEPTH | LOCATION |
|---|---|---|---|---|
| ENSCO 20 | 1980 | 1,2 | 25,000' | China |
| ENSCO 21 | 1982/1996 | 1 | 25,000' | GOM |
| ENSCO 22 | 1982/1997 | 1 | 25,000' | GOM |
| ENSCO 23 | 1980 | 1 | 30,000' | GOM |
| ENSCO 24 | 1980 | 1 | 25,000' | GOM |
| ENSCO 25 | 1980 | 1 | 30,000' | GOM |
| ENSCO 26 | 1982 | 1 | 30,000' | GOM |
| ENSCO 29 | 1981 | 1 | 30,000' | GOM |

Notes:
1) Top-drive unit
2) Rig managed by ENSCO, not owned

The Company's drilling rigs consist of engines, drawworks, derricks, pumps to circulate the drilling fluid, blowout preventers, drill string and related equipment. The engines power a drive mechanism that turns a bit consisting of rotating cones so that the hole is drilled by grinding the rock which is then carried to the surface by the drilling fluid. The intended well depth and the drilling conditions are the principal factors that determine the size and type of rig most suitable for a particular drilling job.

The Company's offshore jackup rigs consist of mobile drilling platforms equipped with legs that can be lowered to the ocean floor to provide support for the drilling platform. All the Company's jackup rigs are of the independent leg design. The jackup rig hull includes the drilling rig, jacking system, crew quarters, storage and loading facilities, helicopter landing pad and related equipment.

The Company's barge drilling rigs have all of the crew quarters, storage facilities, and related equipment mounted on floating barges with the drilling equipment cantilevered from the stern of the barge. The barges are held in place by anchors while drilling activities are conducted.

The Company's platform rigs are designed to be temporarily installed on permanently constructed offshore platforms. A platform rig typically stays at a location for a longer period of time than a jackup rig as several wells can be drilled from a support platform.

Over the life of a typical rig, several of the major components are replaced due to normal wear and tear. All of the Company's rigs are in good condition.

Certain of the Company's jackup rigs, which had a combined net book value of $388.3 million at December 31, 1996, are pledged as collateral in favor of a financial institution to secure payment of the Company's revolving credit facility.

Depending upon the nature of the work, the proximity of the job site to the Company's repair facilities and certain other factors, rig maintenance and repairs are performed at the job site, at the Company's facilities, or vendor facilities. The Company owns or leases field locations and repair facilities for its drilling rigs in Louisiana, Venezuela, the Netherlands, Scotland, Indonesia, India, Qatar and Malaysia.

MARINE TRANSPORTATION

The Company has a marine transportation fleet of 37 vessels consisting of six anchor handling tug supply vessels, 23 supply vessels and eight mini-supply vessels. All of the Company's marine transportation vessels are currently located in the Gulf of Mexico. Substantially all of the Company's marine transportation vessels, which had a combined net book value of $40.6 million at December 31, 1996, are pledged as collateral to secure payment of secured term loans.

The following table provides, as of February 1, 1997, certain information regarding the Company's marine transportation vessels:

MARINE FLEET

| VESSEL TYPE | NO. OF VESSELS | YEAR BUILT | HORSE POWER | LENGTH |
|---|---|---|---|---|
| KODIAKS - AHTS | 2 | 1983 | 12,000 | 225' |
| OTHER- AHTS | 4 | 1976-1983 | 5,800-7,240 | 185'-230' |
| SUPPLY | 23 | 1977-1985 | 1,800-3,000 | 166'-185' |
| MINI-SUPPLY | 8 | 1981-1984 | 1,200 | 140'-146' |

All of the Company's marine transportation vessels are in good condition.

OTHER PROPERTY

The Company leases its executive offices in Dallas, Texas. The Company owns offices and other facilities in Louisiana and Scotland. The Company rents office space in the Netherlands, India, Indonesia, Malaysia, Qatar and Venezuela.

ITEM 3. LEGAL PROCEEDINGS

The Company is from time to time involved in litigation incidental to the conduct of its business. In the opinion of management, none of such litigation in which the Company is currently involved would, individually or in the aggregate, have a material adverse effect on its financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders in the fourth quarter of 1996.

# PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The following table sets forth the high and low sales prices for each period indicated for the Company's common stock, $.10 par value (the "Common Stock") for each of the last two fiscal years:

| | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER | YEAR |
|---|---|---|---|---|---|
| 1996 High . . | $29 1/8 | $33 | $36 | $50 1/8 | $50 1/8 |
| 1996 Low . . . | $20 | $25 3/8 | $26 3/4 | $31 1/2 | $20 |
| 1995 High . . | $14 3/8 | $17 3/8 | $19 1/2 | $23 | $23 |
| 1995 Low . . . | $11 1/4 | $14 | $14 1/4 | $16 | $11 1/4 |

The Company's Common Stock (Symbol: ESV) began trading on the New York Stock Exchange on December 20, 1995, prior to which it was traded on the American Stock Exchange. At February 6, 1997, there were approximately 2,800 stockholders of record of the Company's Common Stock.

Since inception, no dividends have been declared on the Company's Common Stock.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth below for the five years ended December 31, 1996 has been derived from the Company's audited consolidated financial statements. This information should be read in conjunction with the audited consolidated financial statements and notes thereto included in "Item 8. Financial Statements and Supplementary Data."

| | YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 1996<F1> | 1995 | 1994 | 1993<F2> | 19 |
| | (In thousands, except per share amounts) | | | | |
| **Statement of Operations Data <F4>** | | | | | |
| Operating revenues | $ 468,833 | $279,114 | $245,451 | $227,410 | $ 8 |
| Operating expenses, excluding D&A | 238,334 | 165,529 | 144,581 | 151,182 | 8 |
| Depreciation and amortization (D&A) | 81,760 | 58,390 | 51,798 | 41,181 | 1 |
| Operating income (loss) | 148,739 | 55,195 | 49,072 | 35,047 | (1 |
| Other expense | 6,059 | 7,856 | 8,751 | 6,696 | |
| Income (loss) from continuing operations before income taxes, minority interest and cumulative effect of accounting change | 142,680 | 47,339 | 40,321 | 28,351 | (1 |
| Provision for income taxes | 44,009 | 3,397 | 3,759 | 5,942 | |
| Minority interest | 3,271 | 2,179 | 2,984 | 6,932 | |
| Income (loss) from continuing operations | 95,400 | 41,763 | 33,578 | 15,477 | (2 |
| Income (loss) from discontinued operations <F4> | -- | 6,296 | 3,593 | 3,556 | ( |
| Income (loss) before cumulative effect of accounting change | 95,400 | 48,059 | 37,171 | 19,033 | (2 |
| Cumulative effect of accounting change, net of minority interest <F5> | -- | -- | -- | (2,542) | |
| Net income (loss) | 95,400 | 48,059 | 37,171 | 16,491 | (2 |
| Preferred stock dividend requirements | -- | -- | 2,135 | 4,260 | |
| Income (loss) applicable to common stock | $ 95,400 | $ 48,059 | $ 35,036 | $ 12,231 | $(3 |
| Income (loss) per common share: | | | | | |
| Continuing operations | $ 1.44 | $ .69 | $ .55 | $ .28 | $ |
| Discontinued operations | -- | .10 | .06 | .09 | |
| Cumulative effect of accounting change | -- | -- | -- | (.07) | |
| Income (loss) per common share | $ 1.44 | $ .79 | $ .61 | $ .30 | $ |
| Weighted average common shares outstanding | 66,286 | 60,527 | 57,843 | 40,325 | 3 |
| **Balance Sheet Data** | | | | | |
| Working capital | $ 107,519 | $ 78,945 | $129,172 | $124,587 | $ 3 |
| Total assets | 1,315,420 | 821,451 | 773,090 | 689,254 | 27 |
| Long-term debt, net of current portion | 258,635 | 159,201 | 162,466 | 125,983 | 2 |
| $1.50 preferred stock | -- | -- | -- | 70,977 | 7 |
| Stockholders' equity <F6> | 845,951 | 531,249 | 487,950 | 383,925 | 14 |

<F1> The Company acquired Dual on June 12, 1996. Statement of Operations Data includes the results of Dual from the acquisition date.

<F2> The Company completed the step acquisition of Penrod in August 1993.

<F3> Amounts have been restated for adoption of Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes."

<F4> The Company sold its technical services segment in 1995 and its supply segment in 1993. Prior years results of the technical services segment and the supply segment have been reclassified for comparative purposes. The 1995 results include a gain of $5.2 million in connection with the sale of the technical services segment and the 1993 results include a gain of $2.1 million in connection with the sale of the supply segment. See Note 13 to the Company's Consolidated Financial Statements.

<F5> Effective January 1, 1993, Penrod adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

<F6> Since inception, no dividends have been declared on the Company's Common Stock.

/TABLE

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business Environment

ENSCO International Incorporated (the "Company") is one of the largest providers of offshore drilling services and marine transportation services to the oil and gas industry. The Company's operations are conducted in the geographic cores of North America, Europe, Asia and South America. The Company's largest geographic core is North America where the Company operates primarily in the Gulf of Mexico. The Europe operations are concentrated in the North Sea and the South America operations are currently conducted on Lake Maracaibo, Venezuela.

Demand for the Company's services is significantly affected by worldwide expenditures for oil and gas drilling. Expenditures for oil and gas drilling activity fluctuate based upon many factors including world economic conditions, the legislative environment in the U.S. and other major countries, production levels and other activities of OPEC and other oil and gas producers and the impact that these and other events have on the current and expected future pricing of oil and natural gas.

Worldwide drilling activity in 1996 continued to demonstrate a sustained recovery as supply and demand in the offshore drilling market reached near equilibrium, a level not attained since the early 1980's. The increase in drilling activity pushed day rates to levels not experienced since the early 1980's as well. These increases are primarily driven by the strengthening of oil and natural gas prices and new technologies which are making exploration and production more cost effective for the Company's customers. With expected capital expenditure increases for major and independent oil companies in 1997, the Company anticipates that the offshore drilling market will remain strong unless there is a significant deterioration in oil and natural gas prices.

The Company's results have benefitted from the increase in drilling activity discussed above. Of the geographical markets in which the Company operates, the Gulf of Mexico and the North Sea experienced the most significant impact from the increased drilling activity in 1996. The Asia market in general did not experience the same level of increased activity as the Gulf of Mexico and the North Sea for most of 1996. Recently, the Asia market has shown significant improvement and the Company believes the Asia market will continue to improve in 1997 as all offshore drilling markets in general continue to tighten. The Company's South America barge drilling rigs operate under long-term contracts with Lagoven S.A. ("Lagoven"), a subsidiary of Venezuela's national oil company. As a result, their day rate and utilization levels are not as dependent on oil and natural gas prices. Activity levels for the Company's marine transportation vessels generally correspond with the activity levels for the Company's drilling rigs operating in the Gulf of Mexico.

Offshore rig and oilfield supply vessel industry utilization is summarized below:

| | INDUSTRY WIDE AVERAGES <F1> YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| OFFSHORE RIGS | | | |
| Gulf of Mexico: | | | |
| All rigs: | | | |
| Rigs under contract . . . | 158 | 134 | 133 |
| Total rigs available . . | 179 | 176 | 175 |
| % Utilization . . . . . . | 88% | 76% | 76% |
| Jackup rigs: | | | |
| Rigs under contract . . . | 122 | 107 | 109 |
| Total rigs available . . | 136 | 140 | 136 |
| % Utilization . . . . . . | 90% | 76% | 80% |
| Platform rigs: | | | |
| Rigs under contract . . . | 19 | 13 | 14 |
| Total rigs available . . | 25 | 25 | 28 |
| % Utilization . . . . . . | 76% | 52% | 50% |
| Worldwide: | | | |
| All rigs: | | | |
| Rigs under contract . . . | 572 | 539 | 536 |
| Total rigs available . . | 639 | 644 | 661 |
| % Utilization . . . . . . | 90% | 84% | 81% |
| Jackup rigs: | | | |
| Rigs under contract . . . | 347 | 324 | 322 |
| Total rigs available . . | 383 | 388 | 392 |
| % Utilization . . . . . . | 91% | 84% | 82% |
| Platform rigs: | | | |
| Rigs under contract . . . | 111 | 103 | 112 |
| Total rigs available . . | 121 | 118 | 129 |
| % Utilization . . . . . . | 92% | 87% | 87% |
| OILFIELD SUPPLY VESSELS <F2> | | | |
| Gulf of Mexico: | | | |
| Vessels under contract . . | 263 | 249 | 235 |
| Total vessels available . . | 279 | 277 | 264 |
| % Utilization . . . . . . . | 94% | 90% | 89% |

<F1> Industry utilization based on data published by OFFSHORE DATA SERVICES, INC.

<F2> Excludes utility vessels.

/TABLE

## Results of Operations

On June 12, 1996, the Company acquired DUAL DRILLING COMPANY ("Dual") in a purchase acquisition. The Company's consolidated financial statements include the results of Dual from the acquisition date. The acquired Dual operations consisted of a fleet of 20 offshore drilling rigs, including 10 jackup rigs and 10 platform rigs. Five of the jackup rigs are presently located in the Gulf of Mexico, two are located offshore India, one offshore Indonesia and one each in shipyards in Malaysia and Sharjah undergoing modifications and enhancements. Of the 10 platform rigs acquired from Dual, seven are currently located in the Gulf of Mexico and one, which is not owned but managed, is located off the coast of China. The remaining two platform rigs, formerly located off the coast of California, have been retired.

The following analysis highlights the Company's operating results for the years indicated (in thousands):

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| OPERATING RESULTS | | | |
| Revenues . . . . . . . . . . . . . . . . . . | $468,833 | $279,114 | $245,451 |
| Operating margin . . . . . . . . . . . . . . | 241,518 | 123,154 | 110,122 |
| Operating income . . . . . . . . . . . . . . | 148,739 | 55,195 | 49,072 |
| Other expense . . . . . . . . . . . . . . . . | 6,059 | 7,856 | 8,751 |
| Provision for income tax . . . . . . . . . . | 44,009 | 3,397 | 3,759 |
| Minority interest . . . . . . . . . . . . . . | 3,271 | 2,179 | 2,984 |
| Income from continuing operations . . . . . | 95,400 | 41,763 | 33,578 |
| Income from discontinued operations . . . . | -- | 6,296 | 3,593 |
| Net income . . . . . . . . . . . . . . . . . | 95,400 | 48,059 | 37,171 |
| Preferred stock dividend requirements . . . | -- | -- | 2,135 |
| Income applicable to common stock . . . . . | 95,400 | 48,059 | 35,036 |

/TABLE

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| REVENUES | | | |
| Contract drilling | | | |
| Jackup rigs | | | |
| North America | $197,227 | $119,275 | $109,012 |
| Europe | 91,831 | 59,525 | 30,635 |
| Asia <F1> | 23,783 | -- | 2,913 |
| South America | -- | -- | 4,187 |
| Total jackup rigs | 312,841 | 178,800 | 146,747 |
| Barge drilling rigs - South America | 75,536 | 61,975 | 48,227 |
| Platform rigs <F1> | 20,237 | -- | -- |
| Total offshore rigs | 408,614 | 240,775 | 194,974 |
| Land rigs <F2> | -- | -- | 12,807 |
| Total contract drilling | 408,614 | 240,775 | 207,781 |
| Marine transportation | | | |
| AHTS <F3> | 16,120 | 14,421 | 14,743 |
| Supply | 36,509 | 20,143 | 19,362 |
| Mini-supply | 7,590 | 3,775 | 1,701 |
| Subtotal | 60,219 | 38,339 | 35,806 |
| Utility <F4> | -- | -- | 1,864 |
| Total marine transportation | 60,219 | 38,339 | 37,670 |
| Total | $468,833 | $279,114 | $245,451 |
| OPERATING MARGIN <F5> | | | |
| Contract drilling | | | |
| Jackup rigs | | | |
| North America | $106,440 | $ 46,366 | $ 49,607 |
| Europe | 40,268 | 23,062 | 16,732 |
| Asia <F1> | 7,878 | -- | (920) |
| South America | -- | -- | (63) |
| Total jackup rigs | 154,586 | 69,428 | 65,356 |
| Barge drilling rigs - South America | 49,033 | 39,017 | 31,720 |
| Platform rigs <F1> | 5,484 | -- | -- |
| Total offshore rigs | 209,103 | 108,445 | 97,076 |
| Land rigs <F2> | 708 | (228) | 481 |
| Total contract drilling | 209,811 | 108,217 | 97,557 |
| Marine transportation | | | |
| AHTS <F3> | 8,078 | 7,353 | 6,022 |
| Supply | 20,043 | 6,709 | 6,877 |
| Mini-supply | 3,586 | 875 | 585 |
| Subtotal | 31,707 | 14,937 | 13,484 |
| Utility <F4> | -- | -- | (919) |
| Total marine transportation | 31,707 | 14,937 | 12,565 |
| Total | $241,518 | $123,154 | $110,122 |

<F1> Asia and Platform rig information in 1996 results from the Dual acquisition.

<F2> The Company sold all but one of its land rigs in 1994. The remaining land rig was sold in July 1996.

<F3> Anchor handling tug supply vessels.

<F4> As of December 31, 1994, the Company no longer had utility vessels available for work.

<F5> Defined as operating revenues less operating expenses, exclusive of depreciation and amortization and general and administrative expenses.

/TABLE

The consolidated revenues, operating margin and operating income of the Company for 1996 increased significantly as compared to 1995. These increases were due to increased average day rates and utilization for nearly all of the Company's drilling rigs and marine vessels and the impact from the Dual acquisition. The increase in average day rates and utilization is a result of increased worldwide oil and gas drilling activity. Operating income for 1996 was reduced by additional depreciation expense associated with additional rigs added to the Company's fleet and depreciation associated with major modifications and enhancements of rigs and vessels in 1995 and 1996.

The Company's increase in consolidated revenues, operating margin and operating income for 1995 as compared to 1994 was primarily due to a full year of operation of four drilling rigs which commenced operations in Venezuela and two drilling rigs which commenced operations in the North Sea during 1994 coupled with an increase in North Sea average day rates. These increases were offset, in part, by decreased Gulf of Mexico jackup rig average day rates and by the unavailability of three of the Company's jackup rigs that were undergoing modifications and enhancements for the majority of 1995. The Company's 1995 revenues were reduced, while operating income increased, due to the sale of substantially all of the Company's land rig operations in 1994.

CONTRACT DRILLING. The Company's contract drilling segment currently consists of 35 jackup rigs, 10 barge drilling rigs and eight platform rigs. The following is an analysis of the location of the Company's offshore drilling rigs at December 31, 1996, 1995 and 1994.

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Jackup rigs: | | | |
| North America . . . . . . | 23 | 18 | 18 |
| Europe . . . . . . . . . | 6 | 6 | 5 |
| Asia . . . . . . . . . . | 6 (1) | -- | -- |
| Total jackup rigs . . . | 35 | 24 | 23 |
| Barge drilling rigs - South America . . . . . . | 10 | 10 | 10 |
| Platform rigs . . . . . . . | 8 (2) | -- | -- |
| Total . . . . . . . . . | 53 | 34 | 33 |

Notes:
(1) Includes one jackup rig operated by the Company that is 49% owned.
(2) Seven are located in the Gulf of Mexico and one, which is not owned but is operated under a management contract, is located off the coast of China.

The Company's North America jackup and platform rigs operate under relatively short-term agreements with contract durations normally not exceeding six months. Four of the Company's six Europe jackup rigs are committed under contract to a joint venture of major oil and gas exploration companies and are expected to work under these contracts through 1997, however, the joint venture may terminate any of the contracts with six months notice. The Company's Asia jackup rigs generally operate under contracts with one to two year terms. The Company's ten barge drilling rigs in Venezuela operate under long-term contracts for Lagoven expiring in 1998 and 1999. The contracts with Lagoven for the ten barge drilling rigs afford Lagoven the option to buy each of the rigs during or at the end of the contracts.

The following analysis highlights the Company's contract drilling segment offshore operating days (days for which the rig is under contract earning revenue) for the years indicated:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| North America jackup rigs . | 7,072 | 5,642 | 5,063 |
| Europe jackup rigs . . . . | 1,881 | 1,337 | 1,221 |
| Asia jackup rigs . . . . . | 880 | -- | 105 |
| South America jackup rigs . | -- | -- | 170 |
| South America barge drilling rigs . . . . . . | 3,332 | 3,147 | 3,479 |
| Platform rigs . . . . . . . | 1,108 | -- | -- |
| | 14,273 | 10,126 | 10,038 |

For the year ended December 31, 1996, revenues and operating margin for the Company's North America jackup rigs increased by 65% and 130%, respectively, as compared to 1995. These increases were primarily due to an increase in average day rates of approximately $7,200 from the prior year. In addition, the acquired Dual North America jackup rigs contributed $26.7 million in revenue and $15.7 million in operating margin, representing 34% and 26% of the respective increases. The significant percent increase in operating margin as compared to the percent increase in revenue is attributable to the fact that operating costs for rigs are relatively fixed once a rig is fully utilized, and therefore additional revenues significantly impact the operating margin.

For the year ended December 31, 1995, revenues from the Company's North America jackup rigs increased by 9% and operating margin decreased by 7% as compared to 1994. The revenue increase is primarily due to an increase in operating days related to the relocation of two of the Company's jackup rigs to the Gulf of Mexico in 1994, one from South America which commenced operations in the third quarter of 1994 and one from Asia which commenced operations in the third quarter of 1995. The cost to mobilize the two jackup rigs totalled $3.5 million and was charged against 1994 earnings, resulting in negative operating margins for the Asia and South America jackup rigs in 1994. The revenue increase was partially offset by, and the operating margin decrease was primarily attributable to, a decrease of approximately $1,000 in average day rates.

Revenues and operating margin from the Company's Europe jackup rigs increased by 54% and 75%, respectively, in 1996 as compared to 1995. These increases are primarily due to an approximate 15% increase in utilization and a $5,100 increase in average day rates for these rigs. Two of the Company's Europe jackup rigs were off contract undergoing modifications and enhancements for the majority of 1995 and an additional jackup rig, acquired in March 1995, was previously operated under a bareboat charter for all of 1995.

Revenues and operating margin from the Company's Europe jackup rigs increased by 94% and 38%, respectively, in 1995 as compared to 1994, due primarily to an increase of approximately $18,100 in average day rates. Revenues in 1995 also benefitted from the Company assuming operation, effective January 1, 1995, of two jackup rigs that previously operated under bareboat charters. These increases were offset, in part, by the effect of two of the Company's Europe jackup rigs undergoing modifications and enhancements during the majority of 1995 while off contract.

The Company's current Asia jackup rigs were acquired in the Dual acquisition. These rigs contributed approximately $23.8 million in revenue and $8.0 million in operating margin for the period they were included in the Company's 1996 operations. The Company purchased an additional jackup rig in Asia in the fourth quarter of 1996 which did not operate as it was undergoing modifications. The Company had one jackup rig that operated in Asia for part of 1994 before it was mobilized to North America. The Company had no jackup rigs in Asia during 1995.

Revenues and operating margin from the Company's South America barge drilling rigs increased by 22% and 26%, respectively, for the year ended December 31, 1996 as compared to 1995, due primarily to an approximate 5% increase in utilization and an increase in average day rates of approximately $3,000 from the prior year. The utilization increase resulted from the return to work, in May and July 1996, of two of the Company's barge drilling rigs that had previously been undergoing modifications.

For the year ended December 31, 1995, revenues and operating margin from the Company's barge drilling rigs in South America increased by 29% and 23%, respectively, compared to 1994, due primarily to a full year of operation of four barge drilling rigs that began operating in the third quarter of 1994 offset, in part, by two of the Company's barge drilling rigs completing their contracts in the second quarter of 1995 and remaining idle through the end of 1995.

The Venezuelan currency experienced significant devaluation during the first half of 1994. In June 1994, the Venezuelan government established exchange control policies and severely restricted the conversion of Venezuelan currency to U.S. dollars. In late 1995, the Venezuelan government further devalued the Venezuelan currency against the U.S. dollar. In April 1996, the Venezuelan government removed the exchange control policies previously established and allowed the Venezuelan currency to become freely traded. The Venezuelan currency has remained relatively stable subsequent to that change. To date, the Company has not experienced problems associated with receiving U.S. dollar payments with respect to the U.S. dollar portion of its contracts with Lagoven. Changes in these conditions, other policy enactments, or political developments in Venezuela could have an adverse effect upon the Company. However, the Company believes such adverse effects are not probable due to the volume of U.S. dollars paid to the parent company of Lagoven for its oil exports.

The Company's platform rigs were acquired in the Dual acquisition and contributed approximately $20.2 million in revenues and $5.5 million in operating margin for the period they were included in the Company's operations.

MARINE TRANSPORTATION. The Company currently has a marine transportation fleet of 37 vessels, consisting of six anchor handling tug supply vessels, 23 supply vessels and eight mini-supply vessels. All of the Company's marine transportation vessels are currently located in the Gulf of Mexico. Contract durations for the Company's marine transportation vessels are relatively short-term and normally do not exceed six months.

In December 1995, the Company purchased six supply vessels in two separate transactions. Four of the supply vessels purchased were previously operated under operating lease agreements. See Notes 3 and 4 to the Company's Consolidated Financial Statements. In the fourth quarter of 1994, the Company entered into an agreement with an unrelated third party to purchase a supply vessel, convert four of the Company's utility vessels into four larger mini-supply vessels and assign ownership of four of the Company's utility vessels to the unrelated third party. The conversion of the four utility vessels into mini-supply vessels was completed in mid-1995. In 1994, the Company also sold one utility vessel and converted another to a mini-supply vessel.

Revenues and operating margin for the Company's marine transportation vessels increased by 57% and 112%, respectively, in 1996 as compared to 1995, due primarily to increased utilization and day rates for the Company's supply vessels. Revenues and operating margin for 1995 as compared to 1994 increased by 2% and 19%, respectively, due primarily to increased utilization for the Company's anchor handling tug supply vessels. The 1995 operating margin also benefitted from exiting the unprofitable utility vessel business in late 1994.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense for the year ended December 31, 1996 increased by 40% from 1995 due primarily to depreciation and amortization associated with the rigs acquired from Dual, depreciation associated with major modifications and enhancements on various rigs and vessels that returned to work in 1995 and 1996, and depreciation on six supply vessels purchased in late 1995. Depreciation and amortization expense for the year ended December 31, 1995 increased by 13% from 1994 due primarily to a full year of depreciation on four barge drilling rigs delivered to Venezuela in July through September of 1994, a full year of depreciation on two North Sea jackup rigs acquired in mid-February 1994, depreciation on a North Sea jackup rig acquired in March 1995 and depreciation associated with major modifications and enhancements of rigs and vessels in 1995. See Note 3 to the Company's Consolidated Financial Statements. The 1995 increase was partially offset by reduced depreciation associated with the sale of substantially all of the Company's land rigs in 1994.

In connection with the Company's rig upgrade programs in 1996 and 1995, the remaining useful lives of certain of the Company's jackup rigs, for which major enhancements were performed, were extended to twelve years from the time each respective rig left the shipyard to better reflect their remaining economic lives. The effect of the 1996 change in estimate was to increase net income for the year ended December 31, 1996 by $1.4 million, or $.02 per share. The effect of the 1995 change in estimate was to increase net income for the year ended December 31, 1995 by $892,000, or $.01 per share.

GENERAL AND ADMINISTRATIVE. General and administrative expense decreased as a percentage of revenue to 2.4% in 1996 from 3.4% in 1995, demonstrating the Company's ability to achieve efficiencies from the Dual acquisition and as a result of increased revenue from average day rate and utilization increases. General and administrative expense as a percentage of revenue was comparable for 1995 and 1994.

OTHER INCOME (EXPENSE). Other income (expense) for each of the three years in the period ended December 31, 1996 was as follows (in thousands):

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Interest income . . . . . . | $ 4,518 | $ 6,310 | $ 5,252 |
| Interest expense . . . . . | (20,888) | (16,564) | (13,377) |
| Other, net . . . . . . . . | 10,311 | 2,398 | (626) |
| | $ (6,059) | $ (7,856) | $ (8,751) |

The Company reported a decrease in interest income in 1996 as compared to 1995 primarily resulting from lower average cash balances. Interest income increased in 1995 as compared to 1994 due to increased average interest rates which more than offset the effect of lower average cash balances in 1995.

Interest expense increased in 1996 as compared to 1995 as a result of the additional debt assumed in the Dual acquisition. See Note 2 and Note 4 to the Company's Consolidated Financial Statements. Interest expense increased in 1995 as compared to 1994 primarily due to costs associated with financing four barge drilling rigs in July through September 1994. See Note 4 to the Company's Consolidated Financial Statements.

"Other, net" income increased in 1996 as compared to 1995 primarily due to a $6.4 million gain on a litigation settlement as discussed in Note 9 to the Company's Consolidated Financial Statements and a $2.9 million gain on the sale of securities related to the 1995 sale of the Company's technical services operation as discussed in Note 13 to the Company's Consolidated Financial Statements. The Company reported "Other, net" income in 1995 as compared to net expense in 1994 due primarily to gains on the sale of foreign currency denominated securities and decreased foreign currency translation losses in 1995.

PROVISION FOR INCOME TAXES. For the years ended December 31, 1996, 1995 and 1994 the Company recorded provisions for income taxes of $44.0 million, $3.4 million and $3.8 million, respectively, resulting in effective tax rates of 30.8%, 7.2% and 9.3%, respectively. The Company's provision for income taxes increased significantly in 1996 due primarily to an increase in deferred income taxes. Deferred income taxes increased, in part, as a result of increased capital spending and increased profitability. The Company's effective tax rate varies between years due primarily to the Company's level of profitability, the expected utilization or non-utilization of U.S. net operating loss carryforwards, foreign taxes and the recording of deferred taxes. See Note 8 to the Company's Consolidated Financial Statements.

MINORITY INTEREST. The minority interest of $3.3 million, $2.2 million and $3.0 million in 1996, 1995 and 1994, respectively, consists of the minority shareholder's interest in the net income of ENSCO Drilling (Caribbean), Inc. ("Caribbean"). In March 1995, the Company purchased an additional 15% equity interest in Caribbean from the minority shareholder decreasing the minority shareholder's ownership interest to 15%.

INCOME FROM DISCONTINUED OPERATIONS. Effective September 30, 1995, the Company exited the technical services business through the sale of substantially all of the assets of its wholly owned subsidiary, ENSCO Technology Company, for total consideration of $19.8 million, including liabilities of $1.9 million assumed by the purchaser. As a result of this transaction, the Company's financial statements were reclassified to present the Company's technical services segment as a discontinued operation for all years presented. Included in the 1995 Income from Discontinued Operations is a gain on the sale of the technical services business of $5.2 million and income from operations of the technical services business for the nine months ended September 30, 1995. The 1994 Income from Discontinued Operations consists of income from operations of the technical services business. Revenues from the technical services operations were $13.4 million and $16.5 million in 1995 and 1994, respectively. See Note 13 to the Company's Consolidated Financial Statements.

## Liquidity and Capital Resources

CASH FLOW AND CAPITAL EXPENDITURES.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| | (in thousands) | | |
| Cash flow from operations | $198,550 | $ 84,565 | $109,217 |
| Capital expenditures, excluding discontinued operations and Dual acquisition: | | | |
| Sustaining | $ 19,318 | $ 11,335 | $ 22,201 |
| Enhancements | 99,398 | 109,706 | 10,301 |
| New construction | -- | 911 | 62,206 |
| Acquisitions | 57,269 | 21,278 | 55,650 |
| | $175,985 | $143,230 | $150,358 |

The Company issued approximately 10.1 million shares of its common stock in the acquisition of Dual in 1996, resulting in an acquisition price of approximately $218.4 million.

Cash flow from operations in 1996 as compared to 1995 increased by $114.0 million, or 135%, due primarily to increased operating results. The Company's cash flow from operations decreased in 1995 as compared to 1994 by $24.7 million, or 23%, due primarily to an increase in accounts receivable.

The Company's consolidated statement of cash flows for the year ended December 31, 1996 includes the cash and cash equivalents acquired in the acquisition of Dual, plus the cash provided by operating activities of Dual subsequent to the acquisition. The cash flows for investing and financing activities of Dual subsequent to the acquisition, including capital expenditures for property and equipment, long-term borrowings, and repayments of long-term borrowings, are also included in the Company's consolidated statement of cash flows for the year ended December 31, 1996. The cash provided by operating activities and the cash flows for investing and financing activities of Dual prior to the acquisition have not been included in the Company's consolidated statement of cash flows. See Note 2 to the Company's Consolidated Financial Statements.

The Company's capital expenditures for the year ended December 31, 1996 included $99.4 million for modifications and enhancements of rigs and vessels and $57.3 million associated with the acquisition of a jackup rig located in Southeast Asia and the remaining payment on a jackup rig located in Europe which was acquired in 1995. The Company's capital expenditures for the year ended December 31, 1995 included $109.7 million for modification and enhancements of rigs and vessels and $12.8 million associated with the purchase of a jackup rig located in Europe. Capital expenditures for 1994 included $62.2 million for the construction of four barge drilling rigs delivered for operation in Venezuela in July through September of 1994 and $55.7 million for the purchase of two jackup rigs located in Europe.

Management anticipates that capital expenditures in 1997 will be approximately $35.0 million for existing operations and $135.0 million for upgrades and enhancements of rigs and vessels. The Company may spend additional funds to acquire rigs or vessels in 1997, depending on market conditions and opportunities.

During 1994, the Company sold substantially all of its land rig operations for aggregate proceeds of $23.0 million, consisting of cash, a promissory note which was repaid prior to December 31, 1994 and receivables. The Company sold its remaining land rig in 1996.

FINANCING AND CAPITAL RESOURCES. The Company's long-term debt, total capital and debt to capital ratios are summarized below (in thousands, except percentages):

AT DECEMBER 31,

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Long-term debt . . . . . . . . . . | $ 258,635 | $159,201 | $162,466 |
| Total capital . . . . . . . . . . . | 1,104,586 | 690,450 | 650,416 |
| Long-term debt to total capital . | 23.4% | 23.1% | 25.0% |

The increase in long-term debt in 1996 as compared to 1995 primarily relates to $129.0 million of debt assumed in the acquisition of Dual offset, in part, by scheduled repayments of existing debt. The decrease in long-term debt in 1995 as compared to 1994 is due primarily to scheduled repayments offset partially by increased borrowings under the Company's revolving credit facility. See Note 4 to the Company's Consolidated Financial Statements. The total capital of the Company increased in 1996 as compared to 1995 due primarily to the issuance of shares of the Company's common stock in the Dual acquisition valued at $218.4 million, the net increase in long-term debt as discussed above, and the profitability of the Company in 1996. The total capital of the Company increased in 1995 as compared to 1994 due primarily to increased profitability of the Company offset partially by repurchases of the Company's common stock. See Note 6 to the Company's Consolidated Financial Statements.

The Company had $17.9 million undrawn on its revolving line of credit at December 31, 1996. The revolver is reduced semi-annually by $7.0 million with the remaining line expiring in October 2001. As of December 31, 1996, the Company was negotiating to reduce the interest rate margin and to increase availability on its revolving line of credit from $150 million to $200 million. See Note 4 to the Company's Consolidated Financial Statements.

In August 1994, the Company issued a redemption notice for the 2,839,110 outstanding shares of its $1.50 Cumulative Convertible Exchangeable Preferred Stock ("$1.50 Preferred Stock"). Holders of substantially all of the $1.50 Preferred Stock elected to convert each of their shares into approximately 1.786 shares of the Company's common stock. See Note 5 to the Company's Consolidated Financial Statements.

The Company's liquidity position is summarized in the table below (in thousands, except ratios):

**AT DECEMBER 31,**

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Cash and short-term investments . | $ 80,698 | $82,064 | $153,720 |
| Working capital . . . . . . . . . | 107,519 | 78,945 | 129,172 |
| Current ratio . . . . . . . . . . | 2.0 | 1.9 | 2.5 |

Based on current energy industry conditions, management believes cash flow from operations, the Company's existing credit facility and the Company's working capital should be sufficient to fund the Company's short and long-term liquidity needs.

**Other Matters**

During 1996, the Company purchased $23.2 million (face amount) of the Dual 9 7/8% Senior Subordinated Notes due 2004 (the "Notes") on the open market. Additionally, in July 1996, $5.0 million (face amount) of the Notes were redeemed pursuant to an offer required to be made by Dual under the terms of the Notes. See Note 4 to the Company's Consolidated Financial Statements.

**Private Litigation Securities Reform Act of 1995**

This report contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. Generally, forward-looking statements include words or phrases such as "management anticipates", "the Company believes", "the Company anticipates" and words and phrases of similar impact. The forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The factors that could cause actual results to differ materially include the following: (i) industry conditions and competition,
(ii) cyclical nature of the industry, (iii) worldwide expenditures for oil and gas drilling, (iv) operational risks and insurance, (v) risks associated with operating in foreign jurisdictions, (vi) environmental liabilities which may arise in the future which are not covered by insurance or indemnity, (vii) the impact of current and future laws and government regulation, as well as repeal or modification of same, affecting the oil and gas industry and the Company's operations in particular, and
(viii) the risks described from time to time in the Company's reports to the Securities and Exchange Commission. Significant and unexpected deterioration in oil and natural gas prices could adversely affect the level of offshore drilling activity the Company believes is sustainable in

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### REPORT OF MANAGEMENT

The management of ENSCO International Incorporated and its subsidiaries has responsibility for the preparation, integrity and reliability of the consolidated financial statements and related financial information contained in this report.

The consolidated financial statements included in this report have been prepared in conformity with generally accepted accounting principles and prevailing practices of the industries in which the Company operates. In some instances, these financial statements include amounts that are based on management's best estimates and judgments.

The Company maintains a system of procedures and controls over financial reporting that is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the integrity and the fair and reliable preparation and presentation, in all material respects, of its published financial statements. This system of financial controls and procedures is reviewed, modified, and improved as changes occur in business conditions and operations, and as a result of suggestions from the independent auditors. There are inherent limitations in the effectiveness of any system of internal control and even an effective system of internal control can provide only reasonable assurance with respect to the financial statement preparation and may vary over time. Management believes that, as of December 31, 1996, the Company's internal control system provides reasonable assurance that material errors or irregularities will be prevented or detected within a timely period and is cost effective.

As part of management's responsibility for monitoring compliance with established policies and procedures, it relies on, among other things, audit procedures performed by corporate and independent auditors to give assurance that established policies and procedures are adhered to in all areas subject to their audits. The Board of Directors, operating through its Audit Committee composed solely of outside directors, meets periodically with management and the independent auditors for the purpose of monitoring their activities to ensure that each is properly discharging its responsibilities. The Audit Committee and independent auditors have unrestricted access to one another to discuss their findings.

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of ENSCO International Incorporated

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and of cash flows present fairly, in all material respects, the financial position of ENSCO International Incorporated and its subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*/S/ PRICE WATERHOUSE LLP*
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*Dallas, Texas*

January 28, 1997

**ENSCO INTERNATIONAL INCORPORATED AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF INCOME**
(in thousands, except per share data)

**YEAR ENDED DECEMBER 31,**

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| REVENUES | | | |
| Contract drilling . . . . . . . . . . | $408,614 | $240,775 | $207,781 |
| Marine transportation . . . . . . . . | 60,219 | 38,339 | 37,670 |
| | 468,833 | 279,114 | 245,451 |
| OPERATING EXPENSES | | | |
| Contract drilling . . . . . . . . . . | 198,803 | 132,558 | 110,224 |
| Marine transportation . . . . . . . . | 28,512 | 23,402 | 25,105 |
| Depreciation and amortization . . . . | 81,760 | 58,390 | 51,798 |
| General and administrative . . . . . . | 11,019 | 9,569 | 9,252 |
| | 320,094 | 223,919 | 196,379 |
| OPERATING INCOME . . . . . . . . . . . . | 148,739 | 55,195 | 49,072 |
| OTHER INCOME (EXPENSE) | | | |
| Interest income . . . . . . . . . . . | 4,518 | 6,310 | 5,252 |
| Interest expense . . . . . . . . . . . | (20,888) | (16,564) | (13,377) |
| Other, net . . . . . . . . . . . . . . | 10,311 | 2,398 | (626) |
| | (6,059) | (7,856) | (8,751) |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST . . . . . . . . . . . . . . . | 142,680 | 47,339 | 40,321 |
| PROVISION FOR (BENEFIT FROM) INCOME TAXES | | | |
| Current income taxes . . . . . . . . . | 5,399 | 3,828 | 4,638 |
| Deferred income taxes . . . . . . . . | 38,610 | (431) | (879) |
| | 44,009 | 3,397 | 3,759 |
| MINORITY INTEREST . . . . . . . . . . . . | 3,271 | 2,179 | 2,984 |
| INCOME FROM CONTINUING OPERATIONS . . . . | 95,400 | 41,763 | 33,578 |
| INCOME FROM DISCONTINUED OPERATIONS . . . | -- | 6,296 | 3,593 |
| NET INCOME . . . . . . . . . . . . . . . | 95,400 | 48,059 | 37,171 |
| PREFERRED STOCK DIVIDEND REQUIREMENTS . . | -- | -- | 2,135 |
| INCOME APPLICABLE TO COMMON STOCK . . . . | $ 95,400 | $ 48,059 | $ 35,036 |
| INCOME PER COMMON SHARE: | | | |
| Continuing operations . . . . . . . . | $ 1.44 | $ .69 | $ .55 |
| Discontinued operations . . . . . . . | -- | .10 | .06 |
| | $ 1.44 | $ .79 | $ .61 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING . . . . . . . . . . . . . | 66,286 | 60,527 | 57,843 |

The accompanying notes are an integral part of these financial statements.

**ENSCO INTERNATIONAL INCORPORATED AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEET**
(in thousands, except for share amounts)

| | DECEMBER 31, 1996 | 1995 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 80,698 | $ 77,064 |
| Short-term investments | -- | 5,000 |
| Accounts and notes receivable, net | 111,033 | 60,796 |
| Prepaid expenses and other | 19,668 | 22,893 |
| Total current assets | 211,399 | 165,753 |
| PROPERTY AND EQUIPMENT, AT COST | 1,248,873 | 818,266 |
| Less accumulated depreciation | 257,284 | 185,334 |
| Property and equipment, net | 991,589 | 632,932 |
| OTHER ASSETS, NET | 112,432 | 22,766 |
| | $1,315,420 | $821,451 |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

| | 1996 | 1995 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 11,447 | $ 8,936 |
| Accrued liabilities | 57,490 | 45,820 |
| Current maturities of long-term debt | 34,943 | 32,052 |
| Total current liabilities | 103,880 | 86,808 |
| LONG-TERM DEBT | 258,635 | 159,201 |
| DEFERRED INCOME TAXES | 72,963 | 26,800 |
| OTHER LIABILITIES | 33,991 | 17,393 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock, $.10 par value, 125.0 million shares authorized, 77.2 million and 66.9 million shares issued | 7,718 | 6,689 |
| Additional paid-in capital | 835,475 | 615,644 |
| Retained earnings (deficit) | 71,802 | (23,598) |
| Restricted stock (unearned compensation) | (4,929) | (5,263) |
| Cumulative translation adjustment | (1,086) | (1,086) |
| Treasury stock at cost, 6.3 million and 6.3 million shares | (63,029) | (61,137) |
| Total stockholders' equity | 845,951 | 531,249 |
| | $1,315,420 | $821,451 |

The accompanying notes are an integral part of these financial statements.

ENSCO INTERNATIONAL INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

| | Year Ended December 31, 1996 | 1995 | 1994 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Net income | $ 95,400 | $ 48,059 | $ 37,171 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 81,760 | 58,390 | 51,798 |
| Deferred income tax provision (benefit) | 38,610 | (431) | (879) |
| Amortization of other assets | 4,430 | 3,383 | 3,205 |
| Discontinued operations | -- | (5,026) | 2,859 |
| Other | (470) | (1,221) | 2,690 |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in accounts receivable | (28,581) | (23,438) | 11,964 |
| (Increase) decrease in prepaid expenses and other | 1,013 | 4,314 | (7,546) |
| Increase (decrease) in accounts payable | 849 | (3,834) | 5,287 |
| Increase in accrued and other liabilities | 5,539 | 4,369 | 2,668 |
| Net cash provided by operating activities | 198,550 | 84,565 | 109,217 |
| INVESTING ACTIVITIES | | | |
| Additions to property and equipment | (175,985) | (143,230) | (150,358) |
| Net cash acquired in Dual acquisition | 8,529 | -- | -- |
| Net proceeds from sales of discontinued operations | 5,060 | 11,790 | 652 |
| (Purchase) sale of short-term investments, net | 5,000 | 869 | (5,869) |
| Proceeds from disposition of assets | 5,298 | 1,125 | 23,160 |
| Other | 2,048 | (2,383) | (1,835) |
| Net cash used by investing activities | (150,050) | (131,829) | (134,250) |
| FINANCING ACTIVITIES | | | |
| Long-term borrowings | 59,000 | 24,043 | 114,698 |
| Reduction of long-term borrowings | (85,400) | (40,749) | (64,641) |
| Pre-acquisition purchase of Dual debt | (18,112) | -- | -- |
| Repurchase of common stock | -- | (7,211) | (2,426) |
| Preferred stock dividends | -- | -- | (2,135) |
| Other | (354) | 394 | (668) |
| Net cash provided (used) by financing activities | (44,866) | (23,523) | 44,828 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 3,634 | (70,787) | 19,795 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 77,064 | 147,851 | 128,056 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 80,698 | $ 77,064 | $147,851 |

The accompanying notes are an integral part of these financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization and Basis of Presentation

ENSCO International Incorporated (the "Company"), a Delaware corporation, was incorporated in August 1987, and is the successor by merger to Blocker Energy Corporation. At the Company's Annual Meeting of Stockholders held on May 23, 1995, the stockholders approved the change in the name of the Company from Energy Service Company, Inc. to ENSCO International Incorporated. The accompanying consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. The Company's investments in 50% or less owned affiliates are accounted for under the equity method. See Note 3 "Property and Equipment." All significant intercompany accounts and transactions have been eliminated.

On June 12, 1996, the Company acquired DUAL DRILLING COMPANY ("Dual"). See Note 2 "Acquisition of Dual Drilling." The Company's consolidated financial statements include the results of Dual from the June 12, 1996 acquisition date.

In August 1993, the Company completed the step acquisition of Penrod Holding Corporation ("Penrod").

### Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and related revenues and expenses, and disclosure of gain and loss contingencies at the date of the financial statements. Actual results could differ from those estimates.

### Cash Equivalents

For purposes of the consolidated balance sheet and statement of cash flows, the Company considers all highly liquid investments to be cash equivalents if they have maturities of three months or less at the date of purchase.

### Foreign Currency Translation

The U.S. dollar is the functional currency of all of the Company's foreign subsidiaries. The financial statements of foreign subsidiaries are remeasured in U.S. dollars based on a combination of both current and historical exchange rates. Gains and losses caused by the remeasurement process applicable to foreign subsidiaries are reflected in the consolidated statement of income. Translation losses were $329,000, $422,000 and $1.3 million for the years ended December 31, 1996, 1995 and 1994, respectively. In prior years, the financial statements of certain foreign subsidiaries were maintained in the local foreign currency. Foreign currency translation adjustments for those subsidiaries were accumulated as a separate component of equity.

## Short-Term Investments

Short-term investments are comprised of investments having maturities of greater than three months and less than one year at the date of purchase. Short-term investments at December 31, 1995 consisted of debt instruments issued by U.S. government agencies. The aggregate fair value of short-term investments at December 31, 1995 approximated cost.

## Property and Equipment

Depreciation on drilling rigs and related equipment and marine vessels acquired after 1990 is computed using the straight line method over estimated useful lives ranging from 4 to 15 years. Depreciation for other equipment and for buildings and improvements is computed using the straight line method over estimated useful lives ranging from 2 to 6 years and 2 to 30 years, respectively. Depreciation on drilling rigs and related equipment and marine vessels acquired prior to 1991 is computed using the units-of-production method over estimated useful lives ranging from 10 to 15 years. Under the units-of-production method, depreciation is based on the utilization of the drilling rigs and vessels with a minimum provision when the rigs or vessels are idle.

In connection with the Company's rig upgrade programs in 1996 and 1995, the remaining useful lives of certain of the Company's jackup rigs, for which major enhancements were performed, have been extended to twelve years from the time each respective rig left the shipyard to better reflect their remaining economic lives. The effect of the 1995 change in estimate was to increase net income for the year ended December 31, 1995 by $892,000, or $.01 per share. The effect of the 1996 change in estimate was to increase net income for the year ended December 31, 1996 by $1.4 million, or $.02 per share.

Maintenance and repair costs are charged to expense as incurred. Major renewals and improvements are capitalized. Upon retirement or replacement of assets, the related cost and accumulated depreciation are removed from the accounts and the resulting gain or loss is included in income.

## Goodwill

Goodwill arising from acquisitions is amortized on the straight-line basis over periods ranging from 10 to 40 years. See Note 2 "Acquisition of Dual Drilling." Amortization of goodwill was $1.7 million, $485,000 and $802,000 for the years ended December 31, 1996, 1995 and 1994, respectively. Goodwill, net of accumulated amortization, was $106.2 million and $7.3 million at December 31, 1996 and 1995, respectively, and is included in Other Assets, Net. On a periodic basis the Company estimates the undiscounted future cash flows to be generated by the acquired operations to ensure the carrying value of goodwill has not been impaired.

## Impairment of Assets

In 1995, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which did not have an impact upon the Company. As required, the Company evaluates the realizability of its long-lived assets, including property and equipment and goodwill, based upon expectations of undiscounted cash flows before interest.

## Revenue Recognition

The Company's drilling and marine services contracts generally provide for payment on a day rate basis, and revenues are recognized as the work is performed.

## Income Taxes

Deferred tax liabilities and assets are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Company's assets and liabilities using the enacted tax rates in effect at year end. A valuation allowance for deferred tax assets is recorded when it is more likely than not that the benefit from the deferred tax asset will not be realized.

## Minority Interest

ENSCO Drilling (Caribbean), Inc. ("Caribbean") has been included in the Company's consolidated financial statements for all years presented. In March 1995, the Company purchased an additional 15% equity interest in Caribbean from the minority shareholder. The purchase, which was effective January 1, 1995, increased the Company's ownership interest in Caribbean from 70% to 85%. In consideration for the additional 15% interest acquired in Caribbean, the Company makes payments to the minority shareholder that are based upon, in general, the utilization of existing Caribbean rigs. In addition, in the event of a future sale of any rigs currently owned by Caribbean, the minority shareholder is entitled to an additional 15% of the net proceeds upon sale. The minority shareholder's interest included in the Company's consolidated balance sheet at December 31, 1996 and 1995 was $8.5 million and $5.2 million, respectively, and is included in Other Liabilities.

## Stock Based Employee Compensation

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation," which establishes accounting and reporting standards for various stock based compensation plans. SFAS No. 123 encourages the adoption of a fair value based method of accounting for employee stock options, but permits continued application of the accounting method prescribed by Accounting Principles Board Opinion No. 25 ("Opinion 25"), "Accounting for Stock Issued to Employees." The Company has elected to continue to apply the provisions of Opinion 25. Under Opinion 25, if the exercise price of the Company's stock options equals the market value of the underlying stock on the date of grant, no compensation expense is recognized. SFAS No. 123 requires disclosure of pro forma information regarding net income and earnings per share as if the Company had accounted for its employee stock options under the fair value method of the statement. See Note 7 "Employee Benefit Plans."

**Income Per Common Share**

Income per common share has been computed based on the weighted average number of common shares outstanding during the applicable period after recognition of minority interest charges and preferred stock dividend requirements. All weighted average share and per share amounts reflect the one share for four shares reverse stock split ("reverse stock split") which was effective June 1, 1994. See Note 6 "Stockholders' Equity."

**Reclassifications**

Certain previously reported amounts have been reclassified to conform to the 1996 presentation.

2. ACQUISITION OF DUAL DRILLING

On June 12, 1996, the Company acquired Dual pursuant to an Agreement and Plan of Merger among the Company, a wholly owned subsidiary and Dual. The acquisition was approved on that date by Dual stockholders who received 0.625 shares of the Company's common stock for each share of Dual common stock. The Company issued approximately 10.1 million shares of its common stock to Dual stockholders in connection with the acquisition, resulting in an acquisition price of approximately $218.4 million.

The Company accounted for the acquisition of Dual as a purchase. The purchase price allocation has been based on preliminary estimates of fair value and is subject to adjustment as additional information becomes available and is evaluated. The primary areas subject to further purchase price adjustment are reserves associated with insurance related matters and taxes. The excess of the purchase price over net assets acquired approximated $100.7 million and is being amortized over 40 years.

The acquired Dual operations consisted of a fleet of 20 offshore drilling rigs, including 10 jackup rigs and 10 platform rigs. Five of the jackup rigs are presently located in the Gulf of Mexico, two are located offshore India, one offshore Indonesia and one each in shipyards in Malaysia and Sharjah undergoing modifications and enhancements. Of the 10 platform rigs acquired from Dual, seven are currently located in the Gulf of Mexico and one, which is not owned but managed, is located off the coast of China. The remaining two platform rigs, formerly located off the coast of California, have been retired.

The following unaudited pro forma information shows the consolidated results of operations for the years ended December 31, 1996 and 1995 based upon adjustments to the historical financial statements of the Company and the historical financial statements of Dual to give effect to the acquisition by the Company as if such acquisition had occurred January 1, 1995 (in thousands, except per share data):

| | 1996 | 1995 |
|---|---|---|
| Operating revenues | $522,375 | $370,130 |
| Operating income | 149,636 | 53,237 |
| Income from continuing operations | 91,743 | 30,096 |
| Net income | 91,743 | 36,392 |
| Income per common share | $ 1.30 | $ .52 |

The pro forma consolidated results of operations are not necessarily indicative of the actual results that would have occurred had the acquisition occurred on January 1, 1995, or of results that may occur in the future.

## 3. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 1996 and 1995 consisted of the following (in thousands):

| | 1996 | 1995 |
|---|---|---|
| Drilling rigs and equipment | $1,133,944 | $713,311 |
| Marine vessels | 81,594 | 77,795 |
| Other | 15,217 | 11,154 |
| Work in progress | 18,118 | 16,006 |
| | $1,248,873 | $818,266 |

In November 1996, the Company purchased a jackup rig located in Southeast Asia. The rig is undergoing modifications prior to commencing work in the second quarter of 1997. The Company's additions to property and equipment for the year ended December 31, 1996 include approximately $156.7 million in connection with acquisitions and major modifications and enhancements of rigs and vessels.

In March 1995, the Company purchased a jackup rig located in the North Sea and simultaneously entered into a bareboat charter agreement with the seller, which terminated in February 1996. The purchase price consisted of $12.8 million paid at closing and an additional $13.0 million paid at the end of the bareboat charter period.

In November 1995, the Company purchased the remaining 50% interest in a jackup rig from its joint venture partner in Mexico for total consideration of $4.2 million. The Company's investment in the joint venture of $6.6 million, at the date of purchase, was reclassified from investment in equity affiliate to property and equipment in the Company's consolidated balance sheet. For the years ended December 31, 1995 and

1994, the Company recorded income of $200,000 and $700,000, respectively, in Other Income, net from its beneficial ownership in the joint venture. The Company received distributions from the joint venture of $425,000 in 1995 and $2.2 million in 1994, of which $1.1 million of the 1994 distribution represented a return of capital.

In December 1995, the Company purchased six supply vessels in two separate transactions for aggregate consideration of $8.8 million. Four of the supply vessels acquired were previously operated under operating lease agreements. The Company's additions to property and equipment for the year ended December 31, 1995 also included $109.7 million in connection with major modifications and enhancements of rigs and vessels.

4. LONG-TERM DEBT

Long-term debt at December 31, 1996 and 1995 consists of the following (in thousands):

| | 1996 | 1995 |
|---|---|---|
| Revolving credit facility . . . . . . | $125,133 | $ 65,976 |
| 9 7/8% Senior Subordinated Notes . . . | 75,159 | -- |
| Secured term loans (non-recourse to the Company) . . . . . . . . . . . . | 74,825 | 102,709 |
| Secured term loans . . . . . . . . . . | 18,193 | 22,568 |
| Other . . . . . . . . . . . . . . . . | 268 | -- |
| | 293,578 | 191,253 |
| Less current maturities . . . . . . . | (34,943) | (32,052) |
| Total long-term debt . . . . . . . . . | $258,635 | $159,201 |

**Revolving Credit Facility**

On June 13, 1996, the Company amended its $130.0 million revolving credit facility with a group of international banks, increasing availability under the revolving credit facility ("Facility") to $150.0 million. On the same date, the Company borrowed an additional $45.0 million under the Facility, increasing outstanding borrowings under the Facility to $111.0 million. Proceeds from the additional $45.0 million of borrowings under the Facility were used to refinance approximately $41.8 million of Dual's bank debt. The Company incurs a 0.5% annual commitment fee on the undrawn portion of the Facility. Availability under the Facility is reduced by $7.0 million on a semi-annual basis with the remaining outstanding balance due in October 2001. The Facility carries a floating interest rate tied to London InterBank Offered Rates ("LIBOR") for which the margin on the Facility may increase by up to 0.5% based upon the Company's debt ratio. As of December 31, 1996, the interest rate on the Facility was 7.0% per annum. The Company has entered into interest rate swap agreements with two of the lender banks that effectively change the interest rate on $32.0 million of the outstanding Facility from a floating rate to a fixed rate of 7.48% and on $16.0 million of the outstanding Facility from a floating rate to a fixed rate of 6.835%, absent any increase in the margin level of the Facility associated with the Company's debt ratio, through October 2000. The Facility is collateralized by certain of the Company's jackup rigs, which had a combined net book value of $388.3 million at December 31, 1996. The Facility requires that the Company maintain specified minimum balances of cash and working capital, maintain certain operating cash flows and not exceed a certain debt to total asset ratio, and it includes certain limitations on dividends and requires that the appraised value of the rigs securing the facility exceed the amount drawn under the facility by a specified factor.

**9 7/8% Senior Subordinated Notes**

At the June 12, 1996 acquisition date, Dual had outstanding $100.0 million (face amount) of 9 7/8% Senior Subordinated Notes due 2004 (the

"Notes"). In July 1996, $5.0 million (face amount) of the Notes were redeemed pursuant to an offer required to be made by Dual under the terms of the Notes. Additionally, as of December 31, 1996, the Company had purchased $23.2 million (face amount) of the Notes on the open market. The Company's balance sheet at December 31, 1996 reflects long-term debt net of the $5.0 million redemption and the $23.2 million (face amount) of the Notes purchased by the Company as well as the premium assigned to the Notes as a result of purchase accounting. The Notes are unsecured obligations and are guaranteed by certain of the former Dual subsidiaries. The Notes' indenture contains certain restrictive covenants relating to debt, restricted payments, disposition of proceeds of asset sales, transactions with affiliates, limitation on the payment of dividends and other payment restrictions, limitations on sale leaseback transactions and restrictions on mergers, consolidations and transfer of assets. Interest on the Notes is payable semiannually and the Notes are redeemable at the option of the Company, in whole or in part at any time, on or after January 15, 1999.

**Secured Term Loans (Non-recourse to the Company)**

A subsidiary of the Company has two financing arrangements, in an original principal amount totalling $143.0 million, with a subsidiary of a Japanese corporation in connection with the construction of eight barge drilling rigs delivered to Venezuela in 1993 and 1994. The financing arrangements consist of eight secured term loans, one for each barge drilling rig. The eight secured term loans bear interest at an average fixed rate of 8.17% and are each repayable in 60 equal monthly installments of principal and interest ending in mid-1998 through the first part of 2000. The term loans are each secured by a specific barge drilling rig, which had a combined net book value of $115.6 million at December 31, 1996, and the charter contract on each rig. The secured term loans are expected to be repaid from the cash flow generated by the eight barge drilling rigs and are without recourse to the Company.

**Secured Term Loans**

In October 1993, the Company entered into a $25.0 million loan agreement with a financial institution. The seven year secured term loan bears interest at a fixed rate of 7.91% per annum, repayable in 28 equal quarterly installments ending October 15, 2000. The term loan is collateralized by certain of the Company's marine transportation vessels which had a combined net book value of $36.5 million at December 31, 1996. The loan agreement requires that the Company maintain a specified minimum tangible net worth and that the Company not exceed a certain ratio of liabilities to tangible net worth.

In December 1995, in connection with the purchase of four supply vessels that were previously leased, the Company entered into a $4.7 million loan agreement with the seller. The five year secured term loan bears interest at a fixed rate of 7.75% per annum, repayable in 20 equal quarterly installments ending January 2001. The term loan is collateralized by the four supply vessels purchased which had a combined net book value of $4.1 million at December 31, 1996.

Maturities of long-term debt, excluding the premium on the Notes, are as follows: $34.9 million in 1997; $29.5 million in 1998; $23.3 million in 1999; $5.5 million in 2000; $125.1 million in 2001 and $71.8 million thereafter.

## 5. PREFERRED STOCK

In August 1994, the Company issued a redemption notice for the 2,839,110 outstanding shares of its $1.50 Cumulative Convertible Exchangeable Preferred Stock ("$1.50 Preferred Stock"). Holders of 2,807,147 shares of the $1.50 Preferred Stock elected to convert each of their shares into approximately 1.786 shares of the Company's common stock. Such conversion resulted in the issuance of 5,012,762 shares of the Company's common stock. Holders of the remaining 31,963 shares of the $1.50 Preferred Stock elected to redeem their shares which resulted in a cash payment of $799,000.

## 6. STOCKHOLDERS' EQUITY

The Company's stockholders approved a one share for four shares reverse stock split of the Company's common stock at the Company's Annual Meeting of Stockholders held on May 24, 1994. All references in the financial statements to weighted average common shares outstanding, income per common share amounts and the 1994 share amounts in the table below reflect the reverse stock split. The aggregate par value of the Company's common stock was reduced and additional paid-in capital was increased to reflect the decreased aggregate par value of the Company's common stock outstanding subsequent to the reverse stock split.

In December 1994, the Company's Board of Directors authorized the repurchase of up to $50.0 million of the Company's common stock. As of December 31, 1996, the Company had repurchased 800,800 shares of its common stock, of which 201,400 were repurchased in December 1994 and 599,400 shares were repurchased in the first half of 1995. No shares were repurchased in the second half of 1995 or in the year ended December 31, 1996. Management anticipates that any future repurchases of the Company's common stock will be funded from the Company's cash flow from operations and working capital.

A summary of activity in the various stockholders' equity accounts for each of the three years in the period ended December 31, 1996 is as follows (in thousands):

| | COMMON STOCK SHARES | COMMON STOCK AMOUNT | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS (DEFICIT) | RESTRICTED STOCK (UNEARNED COMPENSATION) | TREASURY STOCK |
|---|---|---|---|---|---|---|
| BALANCE, December 31, 1993 | 244,997 | $24,500 | $520,775 | $(106,693) | $(5,614) | $(47,813) |
| Net income | -- | -- | -- | 37,171 | -- | -- |
| Common stock issued under employee benefits plans, net | 309 | 31 | 3,491 | -- | (941) | (2,401) |
| Preferred stock dividends | -- | -- | -- | (2,135) | -- | -- |
| Amortization of unearned compensation | -- | -- | -- | -- | 1,037 | -- |
| Conversion of preferred stock | 5,013 | 501 | 69,677 | -- | -- | -- |
| Repurchase of common stock | -- | -- | -- | -- | -- | (2,426) |
| Reverse stock split | (183,748) | (18,375) | 18,375 | -- | -- | -- |
| BALANCE, December 31, 1994 | 66,571 | 6,657 | 612,318 | (71,657) | (5,518) | (52,640) |
| Net income | -- | -- | -- | 48,059 | -- | -- |
| Common stock issued under employee benefits plans, net | 320 | 32 | 3,326 | -- | (857) | (1,286) |
| Repurchase of common stock | -- | -- | -- | -- | -- | (7,211) |
| Amortization of unearned compensation | -- | -- | -- | -- | 1,112 | -- |
| BALANCE, December 31, 1995 | 66,891 | 6,689 | 615,644 | (23,598) | (5,263) | (61,137) |
| Net income | -- | -- | -- | 95,400 | -- | -- |
| Common stock issued under employee benefits plans, net | 215 | 22 | 2,476 | -- | (740) | (1,892) |
| Common stock issued in Dual acquisition | 10,069 | 1,007 | 217,355 | -- | -- | -- |
| Amortization of unearned compensation | -- | -- | -- | -- | 1,074 | -- |
| BALANCE, December 31, 1996 | 77,175 | $ 7,718 | $835,475 | $ 71,802 | $(4,929) | $(63,029) |

At December 31, 1996 and 1995, the outstanding shares of the Company's common stock was 70.9 million and 60.6 million, respectively.

On February 21, 1995, the Board of Directors of the Company adopted a shareholder rights plan and declared a dividend of one preferred share purchase right (a "Right") for each share of the Company's common stock outstanding on March 6, 1995. Each Right initially entitles its holder to purchase 1/100th of a share of the Company's Series A Junior Participating Preferred Stock for $50.00, subject to adjustment. The Rights generally will not become exercisable until 10 days after a public announcement that a person or group has acquired 15% or more of the Company's common stock (thereby becoming an "Acquiring Person") or the commencement of a tender or exchange offer upon consummation of which such person or group would own 15% or more of the Company's common stock (the earlier of such dates being called the "Distribution Date"). Rights will be issued with all shares of the Company's common stock issued from March 6, 1995 to the Distribution Date. Until the Distribution Date, the Rights will be evidenced by the certificates representing the Company's common stock and will be transferrable only with the Company's common stock. If any person or group becomes an Acquiring Person, each Right, other than Rights beneficially owned by the Acquiring Person (which will thereupon become void), will thereafter entitle its holder to purchase, at the Right's then current exercise price, shares of the Company's common stock having a market value of two times the exercise price of the Right. If, after a person or group has become an Acquiring Person, the Company is acquired in a merger or other business combination transaction or 50% or more of its assets or earning power are sold, each Right (other than Rights owned by an Acquiring Person which will have become void) will entitle its holder to purchase, at the Rights' then current exercise price, that number of shares of common stock of the person with whom the Company has engaged in the foregoing transaction (or its parent) which at the time of such transaction will have a market value of two times the exercise price of the Right. After any person or group has become an Acquiring Person, the Company's Board of Directors may, under certain circumstances, exchange each Right (other than Rights of the Acquiring Person) for shares of the Company's common stock having a value equal to the difference between the market value of the shares of the Company's common stock receivable upon exercise of the Right and the exercise price of the Right. The Company will generally be entitled to redeem the Rights for $.01 per Right at any time until 10 days after a public announcement that a 15% position has been acquired. The Rights expire on February 21, 2005.

7. EMPLOYEE BENEFIT PLANS

**Stock Options**

The Company has an employee stock option plan as part of the ENSCO Incentive Plan (the "Incentive Plan"). The maximum number of shares with respect to which awards may be made pursuant to the Incentive Plan is 6.3 million. Of the 6.3 million shares, a minimum of 625,000 are reserved for issuance of incentive stock grants and a minimum of 625,000 are reserved for issuance as profit sharing grants. Non-qualified options are generally exercisable one year after grant. Incentive stock options generally become exercisable in 25% increments over a four-year period. To the extent not exercised, options expire generally on the fifth anniversary of the date of grant.

In May 1996, the stockholders approved the Company's 1996 Non-Employee Directors Stock Option Plan ("Directors Plan"). Under the Directors Plan, a maximum of 300,000 shares are reserved for issuance. Options granted under the Directors Plan become exercisable six months after the date of grant and expire, if not exercised, five years thereafter.

The exercise price of stock options under the Incentive Plan and the Directors Plan is the market value of the stock at the date the option is granted. Accordingly, no compensation expense is recognized by the Company with respect to such grants.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that statement. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1996 and 1995, respectively: no dividend yield, expected volatility of 38.7% and 40.2%, risk free interest rates of 6.3% and 6.8%, and expected lives of four years each.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in thousands, except per share amounts):

| | 1996 | | 1995 | |
|---|---|---|---|---|
| | AS REPORTED | PRO FORMA | AS REPORTED | PRO FORMA |
| Income applicable to common share . . . . . . . . . | $95,400 | $94,298 | $48,059 | $47,615 |
| Income per common share . . . | 1.44 | 1.42 | .79 | .79 |

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts, as SFAS No. 123 does not apply to awards prior to 1995 and additional awards are anticipated in future years.

A summary of stock option transactions under the Incentive Plan and Directors Plan is as follows (share amounts in thousands):

| | 1996 | | 1995 | | 1994 | |
|---|---|---|---|---|---|---|
| | SHARES | WEIGHTED-AVERAGE EXERCISE PRICE | SHARES | WEIGHTED-AVERAGE EXERCISE PRICE | SHARES | WEIGHTED-AVERAGE EXERCISE PRICE |
| Outstanding at beginning of year . | 1,121 | $13.32 | 1,005 | $10.88 | 1,075 | $ 9.77 |
| Granted . . . . . . . . . . . . | 243 | 31.01 | 512 | 16.31 | 213 | 15.69 |
| Exercised . . . . . . . . . . . | (188) | 8.98 | (262) | 9.27 | (244) | 9.50 |
| Forfeited . . . . . . . . . . . | (25) | 18.67 | (134) | 14.44 | (39) | 10.15 |
| Outstanding at end of year . . . . | 1,151 | 17.65 | 1,121 | 13.32 | 1,005 | 10.88 |
| Exercisable at end of year . . . . | 474 | $13.31 | 377 | $10.45 | 468 | $ 9.80 |
| Weighted-average fair value of options granted during the year | $12.15 | | $6.62 | | -- | |

The following table summarizes information about the fixed-price stock options outstanding at December 31, 1996 (share amounts in thousands):

| | OPTIONS OUTSTANDING | | | OPTIONS EXERCISABLE | |
|---|---|---|---|---|---|
| RANGE OF EXERCISE PRICES | NUMBER OUTSTANDING AT 12/31/96 | WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE | WEIGHTED-AVERAGE EXERCISE PRICE | NUMBER EXERCISABLE AT 12/31/96 | WEIGHTED-AVERAGE EXERCISE PRICE |
| $ 4.75 | 65 | .7 years | $ 4.75 | 65 | $ 4.75 |
| 11.00 - 12.00 | 248 | 1.4 years | 11.84 | 194 | 11.80 |
| 15.69 - 16.31 | 601 | 3.2 years | 16.15 | 197 | 16.05 |
| 26.94 - 30.13 | 169 | 4.4 years | 29.42 | 18 | 30.13 |
| 32.50 - 44.31 | 68 | 4.7 years | 35.10 | -- | -- |
| 4.75 - 44.31 | 1,151 | 2.9 years | 17.65 | 474 | 13.31 |

At December 31, 1996, 2.0 million shares were available for grant as options or incentive grants under the Incentive Plan and 282,000 shares were available for grant as options under the Directors Plan.

## Incentive Stock Grants

Key employees, who are in a position to contribute materially to the Company's growth and development and to its long-term success, are eligible for incentive stock grants under the Incentive Plan through February 8, 1998. Shares of common stock subject to incentive grants vest on such a basis as determined by a committee of the Board of Directors. Through 1996, incentive stock grants for 1.2 million shares of common stock were granted, of which 732,000 were vested at December 31, 1996. During 1996, 1995 and 1994, incentive stock grants for 25,000 shares, 52,500 shares and 60,000 shares, respectively, were granted. The remaining outstanding incentive stock grants vest as follows: 97,250 in each of the years 1997 and 1998, 94,750 in each of the years 1999 and 2000, 13,750 in each of the years 2001 through 2004, 7,720 in 2005 and 2,500 in 2006. The Company charged $1.1 million, $1.1 million and $1.0 million to operations in each of the years 1996, 1995 and 1994, respectively, related to incentive stock grants. The unvested portion of the incentive stock grants is classified in the Stockholders' Equity section of the consolidated balance sheet as Restricted Stock (Unearned Compensation).

## Savings Plan

The Company has a profit sharing plan (the "ENSCO Savings Plan") which covers eligible employees with more than one year of service, as defined. Profit sharing contributions require Board of Directors approval and may be in cash or grants of the Company's common stock. The Company recorded profit sharing contribution provisions for the years ended December 31, 1996, 1995 and 1994 of $3.8 million, $1.7 million and $1.1 million, respectively.

The ENSCO Savings Plan includes a 401(k) savings plan feature which allows eligible employees with more than three months of service to make tax deferred contributions to the plan. The Company makes matching contributions based on the amount of employee contributions and rates set annually by the Company's Board of Directors. Matching contributions totalled $1.1 million, $702,000 and $307,000 in 1996, 1995 and 1994, respectively. The Company has reserved 500,000 shares of common stock for issuance as matching contributions under the ENSCO Savings Plan.

## Select Executive Retirement Plan

The Company implemented the Select Executive Retirement Plan (the "SERP") effective April 1, 1995 to provide a tax deferred savings plan for certain highly compensated employees whose participation in the 401(k) savings plan feature of the ENSCO Savings Plan is restricted due to funding and contribution limitations of the Internal Revenue Code. The SERP is an unfunded plan and eligibility for participation is determined by the Company's Board of Directors. The contribution and Company matching provisions of the SERP are identical to the ENSCO Savings Plan, except that each participant's contributions and matching contributions under the SERP are further limited by contribution amounts, if any, under the 401(k) savings plan feature of the ENSCO Savings Plan. Matching contributions totalled $22,000 in both 1996 and 1995. A SERP liability of $330,000 and $139,000 is included in Other Liabilities at December 31, 1996 and 1995, respectively.

## Employee Retirement Plan

Eligible former Penrod employees participate in a noncontributory defined benefit employee retirement plan. However, the plan was frozen effective December 31, 1990. Accordingly, no additional participants may join the plan and no additional benefits have been accrued for participants subsequent to December 31, 1990. The Company's policy is to fund the plan based on the minimum funding requirements of the Employee Retirement Income Security Act of 1974 and tax considerations. The Company has recorded a plan termination liability, net of plan assets, of $4.2 million, which is included in Other Liabilities at December 31, 1996. Management intends to terminate the plan when it is in the best financial interest of the Company by purchasing annuities or otherwise providing for participants under the plan. Net periodic pension expense for all years presented was insignificant. The Company does not expect to incur any future charges or additional liabilities in connection with the plan prior to its termination.

8. INCOME TAXES

The Company had income of $92.7 million, $33.2 million and $26.8 million from its operations before income taxes in the United States and income of $49.9 million, $14.1 million and $13.5 million from its operations before income taxes in foreign countries for the years ended December 31, 1996, 1995 and 1994, respectively.

The provisions for income taxes for the years ended December 31, 1996, 1995 and 1994 are summarized as follows (in thousands):

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Current: | | | |
| Federal . . . . . . . . . . . . . . . . . . . . . | $ 2,126 | $ 1,340 | $ 1,047 |
| Foreign . . . . . . . . . . . . . . . . . . . . . | 3,273 | 2,488 | 3,591 |
| Total current . . . . . . . . . . . . . . . | 5,399 | 3,828 | 4,638 |
| Deferred: | | | |
| Federal . . . . . . . . . . . . . . . . . . . . . | 40,861 | 900 | (650) |
| Foreign . . . . . . . . . . . . . . . . . . . . . | 7,721 | 5,169 | 2,771 |
| Total deferred . . . . . . . . . . . . . . | 48,582 | 6,069 | 2,121 |
| Deferred tax asset valuation allowance . . . . . . . | (9,972) | (6,500) | (3,000) |
| Total . . . . . . . . . . . . . . . . . . . . . . | $44,009 | $ 3,397 | $ 3,759 |

/TABLE

Deferred income tax assets (liabilities) as of December 31, 1996 and 1995 are summarized as follows (in thousands):

| | 1996 | 1995 |
|---|---|---|
| Deferred income tax benefits: | | |
| Net operating loss carryforwards . . . . . . . | $ 61,550 | $ 84,884 |
| Liabilities not deductible for tax purposes . | 7,144 | 3,382 |
| Safe harbor leases . . . . . . . . . . . . . . | 4,898 | 5,805 |
| Investment tax credit carryforward . . . . . . | 360 | 2,683 |
| Minimum tax credit carryforward . . . . . . . | 2,081 | -- |
| Foreign tax credit carryforward . . . . . . . | 2,728 | -- |
| Unfunded pension liability . . . . . . . . . . | 1,471 | 1,560 |
| Other . . . . . . . . . . . . . . . . . . . . | 5,977 | 3,651 |
| Gross deferred tax assets . . . . . . . . . . | 86,209 | 101,965 |
| Less: Valuation allowance . . . . . . . . . . | -- | (9,972) |
| Deferred tax assets, net of valuation allowance . . . . . . . . . . . . . . . . . | 86,209 | 91,993 |
| Deferred tax liabilities: | | |
| Property . . . . . . . . . . . . . . . . . . . | (147,990) | (100,380) |
| Tax gain recognized on transfer of assets . . | (3,550) | (587) |
| Other . . . . . . . . . . . . . . . . . . . . | (2,760) | (1,863) |
| Gross deferred tax liabilities . . . . . . . . | (154,300) | (102,830) |
| Net deferred tax liabilities . . . . . . . | $ (68,091) | $ (10,837) |
| Net current deferred tax asset . . . . . . . . . . . | $ 4,872 | $ 9,663 |
| Net noncurrent deferred tax asset . . . . . . . . . | -- | 6,300 |
| Net noncurrent deferred tax liability . . . . . . . | (72,963) | (26,800) |
| Net deferred tax liability . . . . . . . . | $ (68,091) | $ (10,837) |

The valuation allowance decreased by $10.0 million in 1996 and by $38.0 million in 1995. Of the 1995 decrease, $13.3 million was recorded as an adjustment to goodwill, due to the expected utilization of net operating losses that were previously projected to expire unutilized. As of December 31, 1996, the entire valuation allowance has been released and the Company expects to realize the full benefit of all of its net operating loss carryforwards. Any future adjustments to the valuation allowance related to the projected utilization or non-utilization of the net operating loss carryforwards of Penrod or Dual that originated prior to their acquisition will be allocated to goodwill.

The consolidated effective income tax rate for the years ended December 31, 1996, 1995 and 1994 differs from the United States statutory income tax rate as follows:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Statutory income tax rate . . . . . . . | 35.0% | 35.0% | 35.0% |
| Utilization of net operating loss carryforwards . . . . . . . . . . . . | -- | (26.7) | (30.3) |
| Change in valuation allowance . . . . . | (7.0) | (13.7) | (7.4) |
| Foreign taxes . . . . . . . . . . . . . | (3.3) | 7.8 | 9.8 |
| Alternative minimum tax . . . . . . . . | 1.5 | 2.8 | 2.6 |
| Other . . . . . . . . . . . . . . . . . | 4.6 | 2.0 | (0.4) |
| Effective income tax rate . . . . . . . | 30.8% | 7.2% | 9.3% |

At December 31, 1996, the Company had regular and alternative minimum tax net operating loss carryforwards of approximately $175.9 million and $76.1 million, respectively, and investment tax credit, minimum tax credit, and foreign tax credit carryforwards of $360,000, $2.1 million and $2.7 million, respectively. If not utilized, the regular and alternative minimum tax net operating loss carryforwards expire from 1999 through 2007, and the investment tax credit carryforwards expire from 1997 through 2000. The minimum tax credit carryforwards do not expire. The foreign tax credit carryforward expires in 2001. As a result of both the Penrod and Dual acquisitions, the utilization of a portion of the Company's net operating loss carryforwards are subject to limitations imposed by the Internal Revenue Code of 1986. However, the Company does not expect such limitations to have an effect upon its ability to utilize its net operating loss carryforwards.

It is the policy of the Company to consider that income generated in foreign subsidiaries is permanently invested. A significant portion of the Company's undistributed foreign earnings at December 31, 1996 were generated by controlled foreign corporations. A portion of the undistributed foreign earnings were taxed, for U.S. tax purposes, in the year that such earnings arose. Upon distribution of foreign earnings in the form of dividends or otherwise, the Company may be subject to additional U.S. income taxes. However, deferred taxes related to the future remittance of these funds are not expected to be significant to the financial statements of the Company.

## 9. COMMITMENTS AND CONTINGENCIES

### Leases

The Company is obligated under leases for certain of its offices and equipment. In December 1995, the Company purchased four supply vessels which were previously operated pursuant to ten-year operating lease agreements. See Note 3 "Property and Equipment."

Rental expense relating to operating leases was $3.1 million, $3.1 million and $3.3 million for the years ended December 31, 1996, 1995 and 1994, respectively. Future minimum rental payments under the Company's noncancellable operating lease obligations having initial or remaining lease terms in excess of one year are as follows: $3.6 million in 1997; $2.6 million in 1998; $1.6 million in 1999; $898,000 in 2000; $841,000 in 2001 and $93,000 thereafter.

**Insurance**

Prior to its acquisition by the Company, Dual was self-insured for a substantial portion of its maritime claims exposure, with self-insured limits of up to $500,000 for each claim. Effective June 12, 1996, the Company increased Dual's insurance coverage to levels consistent with the Company's existing policies which, among other things, limits the exposure to maritime claims to $25,000 for each claim. Based on current information, the Company has provided adequate reserves for such claims.

**Litigation**

In February 1991, a subsidiary of the Company filed an action against TransAmerican Natural Gas Corporation and related subsidiaries and affiliates ("TransAmerican") seeking damages for breach of contract. On April 5, 1996, the U.S. District court for the Southern District of Texas, Houston Division, entered a judgment against TransAmerican. As a result of the judgment, on April 18, 1996, the subsidiary of the Company entered into a settlement agreement with TransAmerican. Under the terms of the settlement agreement, the subsidiary of the Company received approximately $7.3 million. In the second quarter of 1996, the Company recorded a gain of $6.4 million in Other Income, net, with a corresponding increase in deferred income tax expense of $2.2 million for an after tax gain of $4.2 million.

**Letters of Credit**

The Company maintains legally restricted cash balances with banks as collateral for letters of credit issued by banks. These letters of credit are required under certain drilling contracts and the Company's insurance arrangement. Restricted cash balances aggregated $1.6 million and $1.3 million at December 31, 1996 and 1995, respectively, and are recorded in Prepaid Expenses and Other.

**Rig Damage**

In mid-January 1996, one of the Company's jackup rigs located in the Gulf of Mexico experienced damage as it was preparing to jack up on a new location. The jackup rig was mobilized to a shipyard where it remained until late December 1996 while undergoing repairs. The Company was fully insured for damage and salvage operations related to the jackup rig and the Company expects that all such costs incurred will be recoverable from its insurance coverage. The Company has incurred approximately $21.0 million in charges for salvage operations and repair of damages to the rig. At December 31, 1996, the Company had collected $14.6 million in reimbursement for repair of damages to the rig and has a receivable from its insurance company of $6.4 million related to the rig damage.

At December 31, 1996, there were no other contingencies, claims or lawsuits against the Company which, in the opinion of management, would have a material effect on its financial condition or results of operations.

## 10. SEGMENT INFORMATION

Contract drilling and marine transportation are the Company's operating segments. The Company's contract drilling segment is currently comprised of 35 offshore jackup rigs, 10 barge drilling rigs and eight platform rigs. Of the 35 jackup rigs, 23 are located in the Gulf of Mexico, six are located in the North Sea and six are located in Asia. The 10 barge drilling rigs are all located in Venezuela and seven of the platform rigs are located in the Gulf of Mexico. An additional platform rig, which is not owned but is operated under a management contract, is located off the coast of China. The marine transportation segment currently consists of 37 vessels, all of which are located in the Gulf of Mexico. The Company's operations are integral to the exploration, development and production of oil and gas. Business levels for the Company, and its corresponding operating results, are significantly affected by world- wide expenditures for oil and gas drilling, particularly in the Gulf of Mexico where the Company has a large concentration of its rigs and vessels. Expenditures for oil and gas drilling activity fluctuate based upon many factors, including world economic conditions, the legislative environment in the U.S. and other major countries, production levels and other activities of OPEC and other oil and gas producers and the impact that these and other events have on the current and expected future pricing of oil and natural gas.

The following shows industry segment and geographic region information for the years ended December 31, 1996, 1995 and 1994 (in thousands):

| | INDUSTRY SEGMENT | | | |
|---|---|---|---|---|
| | CONTRACT DRILLING | MARINE TRANS-PORTATION | CORPORATE & OTHER | TOTAL |
| **1996** | | | | |
| Revenues | $ 408,614 | $60,219 | $ -- | $ 468,833 |
| Operating income (loss) | 125,825 | 23,414 | (500) | 148,739 |
| Identifiable assets | 1,165,603 | 70,496 | 79,321 | 1,315,420 |
| Capital expenditures | 170,117 | 4,173 | 1,695 | 175,985 |
| Depreciation and amortization | 74,190 | 7,070 | 500 | 81,760 |
| **1995** | | | | |
| Revenues | $ 240,775 | $38,339 | $ -- | $ 279,114 |
| Operating income (loss) | 48,022 | 7,848 | (675) | 55,195 |
| Identifiable assets | 649,503 | 66,685 | 105,263 | 821,451 |
| Capital expenditures | 135,137 | 7,167 | 926 | 143,230 |
| Depreciation and amortization | 52,160 | 5,820 | 410 | 58,390 |
| **1994** | | | | |
| Revenues | $ 207,781 | $37,670 | $ -- | $ 245,451 |
| Operating income (loss) | 44,597 | 5,455 | (980) | 49,072 |
| Identifiable assets | 553,205 | 56,142 | 155,881 | 765,228 |
| Capital expenditures | 142,848 | 6,951 | 559 | 150,358 |
| Depreciation and amortization | 45,421 | 5,815 | 562 | 51,798 |

/TABLE

| | GEOGRAPHIC REGION | | | | | |
|---|---|---|---|---|---|---|
| | NORTH AMERICA | EUROPE | ASIA | SOUTH AMERICA | CORPORATE & OTHER | TOTAL |
| **1996** | | | | | | |
| Revenues | $276,934 | $ 91,831 | $ 24,532 | $ 75,536 | $ -- | $ 468,833 |
| Operating income (loss) | 91,775 | 18,455 | 2,698 | 36,311 | (500) | 148,739 |
| Identifiable assets | 647,340 | 266,517 | 167,524 | 154,718 | 79,321 | 1,315,420 |
| **1995** | | | | | | |
| Revenues | $157,614 | $ 59,525 | $ -- | $ 61,975 | $ -- | $ 279,114 |
| Operating income (loss) | 23,061 | 7,040 | (769) | 26,538 | (675) | 55,195 |
| Identifiable assets | 358,552 | 201,772 | 3,079 | 152,785 | 105,263 | 821,451 |
| **1994** | | | | | | |
| Revenues | $155,118 | $ 30,635 | $ 7,166 | $ 52,532 | $ -- | $ 245,451 |
| Operating income (loss) | 28,838 | 4,868 | (4,608) | 20,954 | (980) | 49,072 |
| Identifiable assets | 330,733 | 104,669 | 10,903 | 163,042 | 155,881 | 765,228 |

Identifiable assets excluded net assets of discontinued operations of $7.9 million at December 31, 1994.

During 1996, revenues from two customers were in excess of 10% of the Company's total revenues. Revenues from one customer were $75.5 million, or 16% of total revenues, all of which were from the contract drilling segment. Revenues from another customer were $63.7 million, or 14% of total revenues, all of which were from the contract drilling segment.

During 1995, revenues from two customers were in excess of 10% of the Company's total revenues. Revenues from one customer were $62.0 million, or 22% of total revenues, all of which were from the contract drilling segment. Revenues from another customer were $34.3 million, or 12% of total revenues, all of which was from the contract drilling segment.

During 1994, revenues from two customers were in excess of 10% of the Company's total revenues. Revenues from one customer were $48.2 million, or 20% of total revenues, all of which were from the contract drilling segment. Revenues from another customer were $35.1 million, or 14% of total revenues. Of such amount, $33.7 million was from the contract drilling segment and $1.4 million was from the marine transportation segment.

## 11. TRANSACTIONS WITH RELATED PARTIES

The Company has a $675,000 note receivable from a director of the Company in connection with the sale of 168,750 shares (675,000 shares prior to the reverse stock split) of restricted common stock in 1988. The note, which may be settled at a formula price by delivery of shares of restricted stock of the Company purchased by the director, is due July 1997 and is noninterest bearing as long as the payor remains a director of the Company. At December 31, 1996 and 1995, the note was recorded as a reduction of additional paid-in capital. This note was subsequently settled in January 1997 and resulted in the director retaining 132,998 net shares of common stock and $238,000 cash after repayment of the note.

12. SUPPLEMENTAL FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEET INFORMATION. Accounts and notes receivable, net at December 31, 1996 and 1995 consists of the following (in thousands):

| | 1996 | 1995 |
|---|---|---|
| Trade . . . . . . . . . . . . . . . | $101,916 | $ 55,993 |
| Other . . . . . . . . . . . . . . . | 10,836 | 5,268 |
| | 112,752 | 61,261 |
| Allowance for doubtful accounts . . | (1,719) | (465) |
| | $111,033 | $ 60,796 |

Prepaid expenses and other at December 31, 1996 and 1995 consists of the following (in thousands):

| | 1996 | 1995 |
|---|---|---|
| Tax asset . . . . . . . . . . . . . | $ 4,872 | $ 9,663 |
| Prepaid expenses . . . . . . . . . | 5,496 | 6,319 |
| Inventory . . . . . . . . . . . . . | 2,112 | 2,259 |
| Deposits . . . . . . . . . . . . . | 1,897 | 1,318 |
| Other . . . . . . . . . . . . . . . | 5,291 | 3,334 |
| | $ 19,668 | $ 22,893 |

Accrued liabilities at December 31, 1996 and 1995 consists of the following (in thousands):

| | 1996 | 1995 |
|---|---|---|
| Operating expenses . . . . . . . . | $ 15,962 | $ 8,586 |
| Deferred purchase payment . . . . . | -- | 13,000 |
| Payroll . . . . . . . . . . . . . . | 14,274 | 7,957 |
| Taxes . . . . . . . . . . . . . . . | 8,609 | 3,592 |
| Insurance . . . . . . . . . . . . . | 4,372 | 2,837 |
| Deferred revenue . . . . . . . . . | 4,268 | 4,656 |
| Accrued interest . . . . . . . . . | 5,626 | 2,222 |
| Other . . . . . . . . . . . . . . . | 4,379 | 2,970 |
| | $ 57,490 | $ 45,820 |

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CONSOLIDATED STATEMENT OF INCOME INFORMATION. Maintenance and repairs expense for the years ended December 31, 1996, 1995 and 1994 is as follows (in thousands):

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Maintenance and repairs . . . . | $30,674 | $18,203 | $17,637 |

CONSOLIDATED STATEMENT OF CASH FLOWS INFORMATION. The 1996 consolidated statement of cash flows excludes the issuance of common stock in the acquisition of Dual. See Note 2 "Acquisition of Dual Drilling."

The 1995 consolidated statement of cash flows excludes noncash activities related to a deferred purchase payment on a jackup rig acquired as described in Note 3 "Property and Equipment," the transfer of the Company's investment in a joint venture to property and equipment as described in Note 3 "Property and Equipment," the incurrence of long-term debt associated with the purchase of four supply vessels as described in Note 4 "Long-Term Debt," adjustments to goodwill as described in Note 8 "Income Taxes" and consideration received related to the sale of the Company's technical services segment as described in Note 13 "Discontinued Operations." The 1994 consolidated statement of cash flows excludes noncash activities related to consideration received in connection with the sale of the Company's United States land rig operations in June 1994, the conversion of the $1.50 Preferred Stock into common stock of the Company as described in Note 5 "Preferred Stock" and a $1.6 million adjustment to goodwill resulting from a decrease in the deferred tax asset valuation allowance.

Cash paid for interest and income taxes for the years ended December 31, 1996, 1995 and 1994 is as follows (in thousands):

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Interest . . . . . . . . . . . | $20,903 | $15,078 | $9,940 |
| Income taxes . . . . . . . . . | 3,903 | 5,006 | 3,104 |

FAIR VALUE OF FINANCIAL INSTRUMENTS. The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies. However, considerable judgement is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. The carrying amounts and estimated fair values at December 31, 1996 and 1995 are as follows (in thousands):

| | DECEMBER 31, 1996 | | DECEMBER 31, 1995 | |
|---|---|---|---|---|
| | CARRYING AMOUNT | ESTIMATED FAIR VALUE | CARRYING AMOUNT | ESTIMATED FAIR VALUE |
| 9 7/8% Senior Subordinated Notes . . . . . . . . . . . . . . . . . . | $ 75,159 | $ 77,796 | $ -- | $ -- |
| Other long-term debt, including current maturities . . . . . . . . . | 218,419 | 218,659 | 191,253 | 191,358 |
| Interest rate swaps - liability position . . . . . . . . . . . . . . | -- | 677 | -- | 408 |

The estimated fair values were determined as follows:

9 7/8% SENIOR SUBORDINATED NOTES --- Quoted market price.

OTHER LONG-TERM DEBT --- Interest rates that are currently available to the Company for issuance of debt with similar terms and remaining maturities are used to estimate fair value for debt issues.

INTEREST RATE SWAPS --- The estimated fair value of interest rate swaps is based on the difference in the present value of the floating rate future receipts and fixed rate future payments.

The estimated fair value of the Company's cash and cash equivalents, short- term investments, receivables, trade payables and other liabilities approximated their carrying values at December 31, 1996 and 1995.

CONCENTRATION OF CREDIT RISK. The Company provides services to the offshore oil and gas industry and the Company's customers consist primarily of major and independent oil and gas producers as well as government owned oil companies. The Company performs ongoing credit evaluations of its customers and generally does not require material collateral. The Company maintains reserves for potential credit losses, which to date have been within management's expectations. The Company's cash and cash equivalents are maintained in major banks and high grade investments. As a result, the Company believes the credit risk in such instruments is minimal.

13. DISCONTINUED OPERATIONS

Effective September 30, 1995, the Company exited the technical services business through the sale of substantially all of the assets of its wholly owned subsidiary, ENSCO Technology Company. The sales price consisted of $11.8 million in cash, an interest-bearing promissory note for $3.6 million, an interest-bearing convertible promissory note for $2.5 million and the assumption of $1.9 million of liabilities. In July 1996, the acquiring company successfully completed a public offering which allowed the Company the right to convert the $2.5 million convertible promissory note into common stock of the purchaser. The Company exercised this right and sold the common stock for $5.4 million in July 1996, realizing a pre- tax gain of approximately $2.9 million on the sale. The pre-tax gain of $2.9 million is recorded in Other Income, net, with a corresponding increase in deferred income tax expense of $1.1 million for an after-tax gain of $1.8 million. Also as a result of the public offering, the $3.6 million promissory note was paid in full in July 1996.

As a result of the sale of the technical services business, the Company's financial statements have been reclassified to present the net assets and operating results of the Company's technical services operations segment as a discontinued operation. Prior years have been reclassified for comparative purposes. Included in the 1995 Income from Discontinued Operations is a gain on the sale discussed above of $5.2 million and income from operations for the nine months ended September 30, 1995 of $1.1 million. Revenues from the technical services operations were $13.4 million and $16.5 million in 1995 and 1994, respectively.

## 14. UNAUDITED QUARTERLY FINANCIAL DATA

A summary of unaudited quarterly consolidated financial information for 1996 and 1995 is as follows (in thousands, except per share amounts):

| 1996 | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER | YEAR |
|---|---|---|---|---|---|
| Revenues | | | | | |
| Contract drilling . . . . . . . . . . . . . | $72,883 | $83,674 | $118,247 | $133,810 | $408,614 |
| Marine transportation . . . . . . . . . . | 11,663 | 13,575 | 16,341 | 18,640 | 60,219 |
| | 84,546 | 97,249 | 134,588 | 152,450 | 468,833 |
| Operating expenses | | | | | |
| Contract drilling . . . . . . . . . . . . . | 37,337 | 42,474 | 57,374 | 61,618 | 198,803 |
| Marine transportation . . . . . . . . . . | 6,187 | 6,753 | 7,427 | 8,145 | 28,512 |
| | 43,524 | 49,227 | 64,801 | 69,763 | 227,315 |
| Operating margin . . . . . . . . . . . . . . . . | 41,022 | 48,022 | 69,787 | 82,687 | 241,518 |
| Depreciation and amortization . . . . . . . . . . | 16,374 | 17,880 | 23,653 | 23,853 | 81,760 |
| General and administrative . . . . . . . . . . | 2,215 | 2,950 | 2,768 | 3,086 | 11,019 |
| Operating income . . . . . . . . . . . . . . . . | 22,433 | 27,192 | 43,366 | 55,748 | 148,739 |
| Interest income . . . . . . . . . . . . . . . . . | 1,236 | 1,098 | 1,051 | 1,133 | 4,518 |
| Interest expense . . . . . . . . . . . . . . . . | 4,049 | 4,387 | 6,319 | 6,133 | 20,888 |
| Other income (expense) . . . . . . . . . . . . | 264 | 7,458 | 2,803 | (214) | 10,311 |
| Income from continuing operations before income taxes and minority interest . . . . . | 19,884 | 31,361 | 40,901 | 50,534 | 142,680 |
| Provision for income taxes . . . . . . . . . . . | 4,767 | 8,849 | 12,979 | 17,414 | 44,009 |
| Minority interest . . . . . . . . . . . . . . . . | 427 | 931 | 710 | 1,203 | 3,271 |
| Net income . . . . . . . . . . . . . . . . . . . | $14,690 | $21,581 | $ 27,212 | $ 31,917 | $ 95,400 |
| Income per common share . . . . . . . . . . . . | $ .24 | $ .34 | $ .38 | $ .45 | $ 1.44 |

/TABLE

| 1996 | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER | YEAR |
|---|---|---|---|---|---|
| Revenues | | | | | |
| Contract drilling | $53,900 | $53,949 | $61,162 | $71,764 | $240,775 |
| Marine transportation | 7,230 | 8,476 | 10,631 | 12,002 | 38,339 |
| | 61,130 | 62,425 | 71,793 | 83,766 | 279,114 |
| Operating expenses | | | | | |
| Contract drilling | 30,479 | 30,458 | 34,413 | 37,208 | 132,558 |
| Marine transportation | 5,616 | 5,706 | 6,066 | 6,014 | 23,402 |
| | 36,095 | 36,164 | 40,479 | 43,222 | 155,960 |
| Operating margin | 25,035 | 26,261 | 31,314 | 40,544 | 123,154 |
| Depreciation and amortization | 13,546 | 14,307 | 14,702 | 15,835 | 58,390 |
| General and administrative | 2,143 | 2,478 | 2,209 | 2,739 | 9,569 |
| Operating income | 9,346 | 9,476 | 14,403 | 21,970 | 55,195 |
| Interest income | 2,149 | 1,652 | 986 | 1,523 | 6,310 |
| Interest expense | 4,391 | 4,104 | 3,912 | 4,157 | 16,564 |
| Other income | 943 | 400 | 874 | 181 | 2,398 |
| Income from continuing operations before income taxes and minority interest | 8,047 | 7,424 | 12,351 | 19,517 | 47,339 |
| Provision for income taxes | 39 | 145 | 1,242 | 1,971 | 3,397 |
| Minority interest | 602 | 596 | 508 | 473 | 2,179 |
| Income from continuing operations | 7,406 | 6,683 | 10,601 | 17,073 | 41,763 |
| Income from discontinued operations | 216 | 401 | 5,679 | -- | 6,296 |
| Net income | $ 7,622 | $ 7,084 | $16,280 | $17,073 | $ 48,059 |
| Income per common share | | | | | |
| Continuing operations | $ .12 | $ .11 | $ .18 | $ .28 | $ .69 |
| Discontinued operations | .01 | .01 | .09 | -- | .10 |
| | $ .13 | $ .12 | $ .27 | $ .28 | $ .79 |

The first and second quarter results for 1995 were reclassified to reflect the accounting for the technical services operation as a discontinued operation. The effect of this change had no impact upon net income, income applicable to common stock or income per common share. See Note 13 "Discontinued Operations."

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

# PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS, ITEM 11. EXECUTIVE COMPENSATION, ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT, AND ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Certain information regarding the executive officers of the Company has been presented in "Executive Officers of the Registrant" as included in "Item 1. Business."

Pursuant to General Instruction G(3), the additional information required by these items is hereby incorporated by reference to the Company's definitive proxy statement, which involves the election of directors and will be filed with the Commission not later than 120 days after the end of the fiscal year ended December 31, 1996.

## PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial statements, financial statement schedules and exhibits filed as part of this report:

(1) Financial Statements of ENSCO International Incorporated



(2) Exhibits

The following instruments are included as exhibits to this Report. Exhibits incorporated by reference are so indicated by parenthetical information.

| EXHIBIT NO. | | DOCUMENT |
|---|---|---|
| 2.1 | - | Agreement and Plan of Merger, dated March 21, 1996, between ENSCO International Incorporated, DDC Acquisition Company and DUAL DRILLING COMPANY (incorporated by reference to Exhibit No. 99.7 to the Registrant's Form 8-K dated March 21, 1996, File No. 1-8097). |
| 2.2 | - | Principal Stockholder Agreement (incorporated by reference to Exhibit 99.8 to the Registrant's Form 8-K dated March 21, 1996, File No. 1-8097). |
| 2.3 | - | Amendment No. 1 to Agreement and Plan of Merger, dated May 7, 1996, between ENSCO International Incorporated, DDC Acquisition Company and DUAL DRILLING COMPANY (incorporated |

by reference to Exhibit 2.2 of Amendment No. 1 to the Registrant's Registration Statement on Form S-4 filed May 10, 1996, Registration No. 333-3411).

3.1 - Certificate of Incorporation of the Company, as restated (incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994, File No. 1-8097).

3.2 - Certificate of Amendment to Certification of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995, File No. 1-8097).

3.3 - Certificate of Amendment to Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.3 to the Registrant's Annual Report on Form 10-K/A for the year ended December 31, 1995, File No. 1-8097).

| | | |
|---|---|---|
| 3.4 | - | Bylaws of the Company, as amended (incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, File No. 1-8097). |
| 4.1 | - | Certificate of Designation of $1.50 Cumulative Convertible Exchangeable Preferred Stock (incorporated by reference to Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 1988, File No. 1-8097). |
| 4.2 | - | Form of Rights Agreement dated as of February 21, 1995 between the Company and American Stock Transfer & Trust Company, as Rights Agent, which includes as Exhibit A the Form of Certificate of Designations of Series A Junior Participating Preferred Stock of ENSCO International Incorporated, as Exhibit B the Form of Right Certificate, and as Exhibit C the Summary of Rights to Purchase Shares of Preferred Stock of ENSCO International Incorporated (incorporated by reference to Exhibit 4 to Registrant's Form 8-K dated February 21, 1995, File No. 1-8097). |
| 4.3 | - | Certificate of Designation of Series A Junior Participating Preferred Stock of the Company (incorporated by reference to Exhibit 4.6 to the Registrant's Annual Report on Form 10-K/A for the year ended December 31, 1995, File No. 1-8097). |
| 10.1 | - | ENSCO Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, File No. 1-8097). |
| 10.2 | - | Restricted Stock Agreement effective as of June 10, 1987 between Morton H. Meyerson and the Company (incorporated by reference to Exhibit 10.6 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, File No. 1-8097). |
| 10.3 | - | Restricted Stock Agreement effective as of May 31, 1988 between Morton H. Meyerson and the Company (incorporated by reference to Exhibit 19.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 1988, File No. 1-8097). |
| 10.4 | - | Termination of Pledge Agreement and Amendment of Restricted Stock Agreement, dated March 1, 1991, by and between Morton H. Meyerson and the Company (incorporated by reference to Exhibit 10.108 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 1-8097). |
| 10.5 | - | First Amendment, dated March 1, 1991, to the Promissory Note dated July 19, 1988 in the original principal amount of |

$675,000 between Morton H. Meyerson and the Company (incorporated by reference to Exhibit 10.109 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 1-8097).

10.6 - Lease Agreement between the Company as tenant and Freeman Ross, Ltd. as landlord for the Company's corporate office space at First Interstate Bank Tower at Fountain Place, 1445 Ross Avenue, Dallas, Texas (incorporated by reference to Exhibit 28.5 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1990, File No. 1-8097).

10.7 - Supplemental Compensation Agreement, dated March 1, 1991, between Morton H. Meyerson and the Company (incorporated by reference to Exhibit 10.110 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 1-8097).

10.8 - Construction and Purchase Agreement dated as of February 3, 1992 between Nissho Iwai Hong Kong Corporation Limited as Purchaser and ENSCO Drilling Company as Contractor (incorporated by reference to Exhibit 10.21 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, File No. 1-8097).

10.9 - Sale and Financing Agreement dated as of February 3, 1992 between ENSCO Drilling Venezuela, Inc. as Purchaser and Nissho Iwai Hong Kong Corporation Limited as Seller (incorporated by reference to Exhibit 10.22 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, File No. 1-8097).

10.10 - Loan Agreement dated October 14, 1993, by and among ENSCO Marine Company and The CIT Group/Equipment Financing, Inc.

(incorporated by reference to Exhibit 10.27 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, File No. 1-8097).

10.11 - Construction and Purchase Agreement dated November 12, 1993, by and between ENSCO Drilling Company and Nissho Iwai Hong Kong Corporation Limited (incorporated by reference to Exhibit 10.28 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, File No. 1-8097).

10.12 - Sale and Financing Agreement dated November 12, 1993, by and between Nissho Iwai Hong Kong Corporation Limited and ENSCO Drilling Venezuela, Inc. (incorporated by reference to Exhibit 10.29 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, File No. 1-8097).

10.13 - Credit Facility Agreement dated December 15, 1993, by and among ENSCO Offshore Company and ENSCO Offshore U.K. Limited, as borrowers, and Christiania Bank OG Kreditkasse, London Branch, den Norske Bank A.S., New York Branch, Banque Indosuez, and Meespierson N.V., as the Banks (incorporated by reference to Exhibit 10.30 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993,

File No. 1-8097).

10.14 - Partial Satisfaction of Mortgage, dated November 29, 1994, between Wilmington Trust Company, as trustee for the benefit of The CIT Group/Equipment Financing, Inc., and ENSCO Marine Company (incorporated by reference to Exhibit No. 10.30 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994, File No. 1-8097).

10.15 - Modification and Amendment of First Preferred Fleet Ship Mortgage, dated January 23, 1995, by ENSCO Marine Company and Wilmington Trust Company, as trustee for the benefit of The CIT Group/Equipment Financing, Inc. (incorporated by reference to Exhibit No. 10.31 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994, File No. 1-8097).

10.16 - Amendment No. 1, dated November 1, 1994, to Credit Facility Agreement dated December 15, 1993 among ENSCO Offshore Company and ENSCO Offshore U.K. Limited, as borrowers, and Christiana Bank OG Kreditkasse, London Branch, den Norske Bank A.S., New York Branch, Banque Indosuez and Meespierson N.V., as the banks (incorporated by reference to Exhibit No. 10.32 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994, File No. 1-8097).

10.17 - Amended and Restated Credit Facility Agreement dated September 27, 1995 by and among ENSCO Offshore Company and ENSCO Offshore U.K. Limited, as borrowers, and Christiana Bank OG Kreditkasse, New York Branch, and den Norske Bank AS, New York Branch, as the Banks (incorporated by reference to Exhibit No. 10.33 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, File No. 1-8097).

10.18 - Amendment No. 2, dated September 27, 1995, to the First Preferred Fleet Mortgage dated December 17, 1993, as amended, by ENSCO Offshore Company and Bankers Trust Company, as trustee for the benefit of Christiana Bank OG Kreditkasse, New York Branch, and den Norske Bank AS, New York Branch (incorporated by reference to Exhibit No. 10.34 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, File No. 1-8097).

10.19 - Select Executive Retirement Plan of the Company (incorporated by reference to Exhibit No. 10.23 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995, File No. 1-8097).

10.20 - Second Amendment, dated September 14, 1995, to the Promissory Note dated July 19, 1988 in the original principal amount of $675,000 between Morton H. Meyerson and

the Company (incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995, File No. 1-8097).

| | | |
|---|---|---|
| 10.21 | - | Amendment No. 1 dated as of June 13, 1996 to the Amended and Restated Credit Facility Agreement dated as of September 27, 1995 by and among ENSCO Offshore Company and ENSCO Offshore U.K. Limited, as borrowers, and Christiana Bank OG Kreditkasse, New York Branch, and den Norske Bank AS, New York Branch, as the Banks (incorporated by reference to Exhibit No. 10.25 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, File No. 1-8097). |
| 10.22 | - | Amendment No. 3, dated June 13, 1996, to the First Preferred Fleet Mortgage dated December 17, 1993, as amended, by ENSCO Offshore Company and Bankers Trust Company, as trustee for the benefit of Christiana Bank OG Kreditkasse, New York Branch, and den Norske Bank AS, New York Branch (incorporated by reference to Exhibit No. 10.26 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, File No. 1-8097). |
| 10.23 | - | First Preferred Fleet Mortgage dated June 13, 1996 by ENSCO Offshore Company II and Bankers Trust Company, as trustee for the benefit of Christiana Bank OG Kreditkasse, New York Branch, and den Norske Bank AS, New York Branch. (incorporated by reference to Exhibit No. 10.27 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, File No. 1-8097). |
| * 10.24 | - | Letter Agreement, dated January 8, 1997, by and between Morton H. Meyerson and the Company. |
| * 21 | - | Subsidiaries of the Registrant. |
| * 23 | - | Consent of Price Waterhouse LLP. |
| * 27 | - | Financial Data Schedule. |

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* Filed herewith

**Executive Compensation Plans and Arrangements**

The following is a list of all executive compensation plans and arrangements required to be filed as an exhibit to this Form 10-K:

1. ENSCO Incentive Plan, as amended (filed as Exhibit 10.1 hereto and incorporated by reference to Exhibit 10.1 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, File No. 1-8097).

2. Restricted Stock Agreement effective as of June 10, 1987 between Morton H. Meyerson and the Company (filed as Exhibit 10.2 hereto and incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, File No. 1-8097).

3. Restricted Stock Agreement effective as of May 31, 1988 between Morton H. Meyerson and the Company (filed as Exhibit 10.3 hereto and incorporated by reference to Exhibit 19.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 1988, File No. 1-8097).

4. Termination of Pledge Agreement and Amendment of Restricted Stock Agreement, dated March 1, 1991, by and between Morton H. Meyerson and the Company (filed as Exhibit 10.4 hereto and incorporated by reference to Exhibit 10.108 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 1-8097).

5. First Amendment, dated March 1, 1991, to the Promissory Note dated July 19, 1988 in the original principal amount of $675,000 between Morton H. Meyerson and the Company (filed as Exhibit 10.5 hereto and incorporated by reference to Exhibit 10.109 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 1-8097).

6. Supplemental Compensation Agreement, dated March 1, 1991, between Morton H. Meyerson and the Company (filed as Exhibit 10.7 hereto and incorporated by reference to Exhibit 10.110 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 1-8097).

7. Select Executive Retirement Plan of the Company (filed as Exhibit 10.19 hereto and incorporated by reference to Exhibit No. 10.23 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995, File No. 1-8097).

8. Second Amendment, dated September 14, 1995, to the Promissory Note dated July 19, 1988 in the original principal amount of $675,000 between Morton H. Meyerson and the Company (filed as Exhibit 10.20 hereto and incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995, File No. 1-8097).

9. Letter Agreement, dated January 8, 1997, by and between Morton H. Meyerson and the Company (filed herewith as Exhibit 10.24).

The Company will furnish to the Securities and Exchange Commission upon request, all constituent instruments defining the rights of holders of long-term debt of the Company not filed herewith as permitted by paragraph 4(iii)(A) of Item 601 of Regulation S-K.

(b) Reports on Form 8-K

No Current Reports on Form 8-K were filed by the Company during the fourth quarter of the year ended December 31, 1996.

For the purposes of complying with the amendments to the rules governing Form S-8 (effective July 13, 1990) and Form S-3 under the Securities Act of 1933, the undersigned registrant hereby undertakes as follows, which undertaking shall be incorporated by reference into registrant's Registration Statements on Form S-8 Nos. 33-40282 filed May 2, 1991, 33- 41294 filed June 19, 1991, 33-35862 filed July 13, 1990, 33-32447 filed December 5, 1989 and 33-14714 filed June 1, 1987 and Form S-3 Nos. 333- 03575, 33-64642, 33-49590 filed July 13, 1992 (as amended by Amendment No. 1 filed July 31, 1992), 33-46500 filed March 18, 1992 (as amended by Amendment No. 1 filed May 7, 1992), 33-43756 filed November 12, 1991 (as amended by Amendment No. 1 filed December 19, 1991) and 33-42965 filed September 25, 1991 (as amended by Amendment No. 1 and 2 filed October 29, 1991 and November 18, 1991, respectively):

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 20, 1997.

**ENSCO International Incorporated**
(Registrant)

*By /s/ CARL F. THORNE*
*-----------------------------*
*Carl F. Thorne*
*Chairman, President and*
*Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

| SIGNATURES | TITLE | DATE |
|---|---|---|
| /S/ CARL F. THORNE<br>Carl F. Thorne | Chairman, President, Chief Executive Officer and Director | |
| /S/ RICHARD A. WILSON<br>Richard A. Wilson | Senior Vice President, Chief Operating Officer and Director | |
| /S/ C. CHRISTOPHER GAUT<br>C. Christopher Gaut | Vice President and Chief Financial Officer | |
| /S/ H. E. MALONE<br>H. E. Malone | Vice President, Chief Accounting Officer and Controller | |
| /S/ CRAIG I. FIELDS<br>Craig I. Fields | Director | February 20, 1997 |
| /S/ ORVILLE D. GAITHER, SR.<br>Orville D. Gaither, Sr. | Director | |
| /S/ GERALD W. HADDOCK<br>Gerald W. Haddock | Director | |
| /S/ DILLARD S. HAMMETT<br>Dillard S. Hammett | Director | |
| /S/ THOMAS L. KELLY, II<br>Thomas L. Kelly, II | Director | |
| /S/ MORTON H. MEYERSON | Director | |

Morton H. Meyerson __

**EXHIBIT 10.24**

January 8, 1997

Mr. Morton H. Meyerson
Suite 400
4514 Cole Avenue
Dallas, Texas 75205

RE: Restricted Stock Agreement

Dear Mr. Meyerson:

Reference is made to that certain Restricted Stock Agreement dated May 31, 1988 by and between you and ENSCO International Incorporated (formerly Energy Service Company, Inc.), a Delaware corporation ( ENSCO ), as amended (collectively, the Agreement ). Under the terms of the Agreement you acquired 168,750 shares (the "Original Shares") of ENSCO common stock, par value $.10 per share ( Common Stock ), subject to a right of repurchase by ENSCO upon the occurrence of certain circumstances and under certain terms and conditions. You delivered to ENSCO a promissory note referred herein as the Promissory Note , dated July 19, 1988 in the aggregate principal amount of $675,000 in payment of the purchase price for the Original Shares.

We have previously discussed restructuring the terms of the Agreement and the Promissory Note so that the Promissory Note is canceled and you would receive (i) cash in an amount necessary to pay the United States income tax on the income recognized by you resulting from this transaction
(the "Tax Amount") and (ii) shares of Common Stock (the "New Shares")
equal to the difference between the value of the Original Shares on the date the Promissory Note is canceled calculated using the Formula Price (as defined in the Agreement) less the sum of (A) the unpaid principal balance of the Promissory Note and (B) the Tax Amount. The Agreement will be terminated and the New Shares will not be subject to any of the restrictions in the Agreement. Please note that the New Shares will be deemed "restricted stock" as that term is defined in Rule 144 promulgated under the Securities Act of 1933, as amended, and therefore the resale of the New Shares will be subject to restrictions set forth in Rule 144.

Based on these discussions ENSCO and you hereby agree that on the Closing Date (as defined below), you shall transfer to ENSCO all right, title and interest you have in the Original Shares and in exchange therefor ENSCO shall cancel the Promissory Note and deliver to you a stock certificate representing the New Shares and an amount in cash equal to the Tax Amount. The Agreement shall be deemed terminated as of the Closing Date. You shall advise ENSCO prior to the Closing Date of the calculation of the Tax Amount, which shall be subject to the prior review and approval by ENSCO.

The number of New Shares shall be calculated in the following manner:

$$\text{Number of New Shares} = \frac{(168{,}750 \times \text{Formula Price}) - (\$675{,}000 + \text{Tax Amount})}{\text{Market Price}}$$

Where,

Market Price = the price per share of Common Stock based on the average of the high and low sale prices of the Common Stock as reported by the New York Stock Exchange, Inc. on the Closing Date.

Formula Price = the Formula Price referenced in the Agreement using the Market Price as the Trading Price (as defined in the Agreement).

Tax Amount = cash in an amount necessary to pay the United States income tax on the income recognized by you resulting from this transaction.

The Closing Date shall be a date mutually agreed between ENSCO and you occurring after the date the ENSCO Board of Directors approves the terms of this letter. This agreement is subject to the prior approval of the ENSCO Board of Directors. In the event the Board of Directors does not approve the terms of this agreement, this letter shall be deemed terminated and of no force or effect.

If the foregoing correctly sets forth our mutual agreement with respect to the foregoing, please sign at the space provided below.

Yours very truly,

**ENSCO International Incorporated**

*/s/ CARL F. THORNE*
*--------------------------------*
*Carl F. Thorne*
*Chairman and Chief Executive Officer*

**AGREED AND ACCEPTED**
this 13th day of January, 1997.

*/s/ MORTON H. MEYERSON*
*- ------------------------------*

Morton H. Meyerson

**EXHIBIT NO. 21**

**SUBSIDIARIES OF THE REGISTRANT**

The following list sets forth the name and jurisdiction of incorporation of each subsidiary of the Registrant (other than certain subsidiaries that, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary) and the percentage of voting securities owned by each subsidiary's immediate parent. Each such subsidiary is included in the Consolidated Financial Statements.

| | Percentage of Voting Securities Owned by Registrant | Percentage of Voting Securities Owned by Immediate Parent |
|---|---|---|
| ENSCO Drilling Company (Delaware) . . . . . . . . . . | 100% | |
| ENSCO Drilling (Caribbean), Inc. (Cayman Islands) | | 85% |
| ENSCO Drilling Venezuela, Inc. (Cayman Islands) | | 100% |
| ENSCO Engineering Company (Delaware) . . . . . . . . | 100% | |
| ENSCO Holding Corporation (Delaware) . . . . . . | | 100% |
| ENSCO Delaware, Inc. (Delaware) . . . . . . . . | | 100% |
| ENSCO Offshore Company (Delaware) . . . . . . | | 100% |
| ENSCO Offshore U.K. Limited (U.K.) . . . . | | 100% |
| ENSCO Incorporated (Texas) . . . . . . . . . . . . | 100% | |
| ENSCO Limited (Cayman Islands) . . . . . . . . . . | 100% | |
| ENSCO Marine Company (Delaware) . . . . . . . . . . | 100% | |
| ENSCO Oceanics Company (Delaware) . . . . . . . . . . | 100% | |
| ENSCO Netherlands Ltd. (Cayman Islands) . . . . | | 100% |
| Petroleum Finance Corporation (Cayman Islands) . | | 100% |
| ENSCO Brazil Servicos de Petroleo Limitada (Brazil) | | 99% |
| ENSCO Drilling Company (Nigeria), Ltd. (Nigeria) | | 99% |
| ENSCO Acquisition Company (Delaware) . . . . . . . . | 100% | |
| Dual Holding Company . . . . . . . . . . . . . . . . | 100% | |
| ENSCO Offshore Company II . . . . . . . . . . . | | 100% |
| ENSCO Qatar Company . . . . . . . . . . . . . . | | 100% |
| ENSCO Oceanics Company II . . . . . . . . . . . | | 100% |
| ENSCO Maritime Limited . . . . . . . . . . . . | | 100% |
| Dual Drilling Arabia, Ltd. . . . . . . . . . | | 50% |
| ENSCO Asia Company II . . . . . . . . . . . . . . | | 100% |
| P. T. Dual Perkasa Offshore . . . . . . . . . | | 80% |
| Sociedada Brasiliero de Perfuacoes . . . . . | | 99% |
| ENSCO Platform Company . . . . . . . . . . . . . . | | 100% |
| Dual Drilling Nigeria Ltd. . . . . . . . . . . | | 100% |
| Dual Drilling de Venezuela . . . . . . . . . . | | 100% |
| ENSCO Platform AS . . . . . . . . . . . . . . . . | | 100% |
| ENSCO Malaysia Company . . . . . . . . . . . . . . | | 100% |
| Sime ENSCO Sdn. Bhd. . . . . . . . . . . . . . . | | 49% |

Sime Dual Drilling Ltd. . . . . . . . . . . . . 100%

**EXHIBIT NO. 23**

## CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectuses constituting parts of the Registration Statements on Form S-3 (Nos. 333- 03575, 33-42965, 33-46500, 33-49590, 33-43756 and 33-64642), and any existing amendments thereto, and Form S-8 (Nos. 33-14714, 33-32447, 33- 35862, 33-40282 and 33-41294) of ENSCO International Incorporated of our report dated January 28, 1997 appearing on page 22 of this Form 10-K.

*/s/ PRICE WATERHOUSE LLP*
*- ------------------------*
*Price Waterhouse LLP*

Dallas, Texas February 17, 1997

**ARTICLE 5**

EXHIBIT NO. 27 THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE DECEMBER 31, 1996 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE: 12 MOS

PERIOD START: JAN 01 1996

FISCAL YEAR END: DEC 31 1996

PERIOD END: DEC 31 1996

CASH: $ 80,698

SECURITIES: 0

RECEIVABLES: 112,752

ALLOWANCES: 1,719

INVENTORY: 2,112

CURRENT ASSETS: 211,399

PP&E: 1,248,873

DEPRECIATION: 257,284

TOTAL ASSETS: 1,315,420

CURRENT LIABILITIES: 103,880

BONDS: 258,635

COMMON: 7,718

PREFERRED MANDATORY: 0

PREFERRED: 0

OTHER SE: 838,233

TOTAL LIABILITY AND EQUITY: 1,315,420

SALES: 0

TOTAL REVENUES: 468,833

CGS: 0

TOTAL COSTS: 227,315

OTHER EXPENSES: 92,779

LOSS PROVISION: 0

INTEREST EXPENSE: 20,888

INCOME PRETAX: 142,680

INCOME TAX: 44,009

INCOME CONTINUING: 95,400

DISCONTINUED: 0

EXTRAORDINARY: 0

CHANGES: 0

NET INCOME: 95,400

EPS PRIMARY: 1.44

EPS DILUTED: 1.44

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